IBN HALDUN UNIVERSITY
SCHOOL OF GRADUATE STUDIES
DEPARTMENT OF MANAGEMENT

MASTERS THESIS

US-CHINA TRADE WAR: OPPORTUNITIES FOR TURKISH EXPORTERS

DARIQ KHADAR NOUR

THESIS SUPERVISOR: ASSIST.PROF. OMAR KACHKAR

ISTANBUL, 2020

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US-CHINA TRADE WAR: OPPORTUNITIES FOR TURKISH EXPORTERS

by

DARIQ KHADAR NOUR

A thesis submitted to the School of Graduate Studies in partial fulfillment of the requirements for the degree of Master of Arts in Management

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APPROVAL PAGE

This is to certify that we have read this thesis and that in our opinion it is fully adequate, in scope and quality, as a thesis for the degree of Master of Arts in Management.

Thesis Jury Members

Title - Name Surname	Opinion	Signature
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This is to confirm that this thesis complies with all the standards set by the School of Graduate Studies of Ibn Haldun University.

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ACADEMIC HONESTY ATTESTATION

I hereby declare that all information in this document has been obtained and presented in accordance with academic rules and ethical conduct. I also declare that, as required by these rules and conduct, I have fully cited and referenced all material and results that are not original to this work.

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Signature:

ÖZ

TÜRKİYE'DE PİYASA EKONOMİSİ VE DÖVİZ KURLARI
ABD-ÇİN TİCARET SAVAŞI: TÜRK İHRACATÇILARI İÇİN FIRSAT

Yazar: Khadar Nour, Dariq
İşletme Yüksek Lisans Programı
Tez Danışmanı: Asisst. Prof. Omar Kachkar
Temmuz 2020, 94 sayfa

Son zamanlarda Çin-ABD ticaret savaşı hem Çin hem de ABD ekonomilerini olumsuz etkiledi.Uygulanan tarifeler, etkilenen malların üretim maliyetlerini artırdı ve tüketici fiyatının artmasına neden oldu.Trump, mevcut ikili ilişkilerin Çin'i desteklediğini ve ABD'yi baltaladığını gördü.Trump, Çin'i ABD fikri mülkiyetinin çalınmasıyla suçladı ve Çin pazarına girişin ön adımı olarak şirketlere karşı yasadışı zorunlu teknoloji transferi, ABD'nin Çin'e karşı ticaret açığına katkıda bulundu.Bu çalışmada ABD-Çin ticaret savaşından etkilenen ana sektörleri tespit etmek ve bu sektörlerin yerine Türk ihracatçıların fırsatlarını analiz etmek için nitel bir keşif içerik analizi kullanılmıştır. Bu araştırmadaki bulgularımız, Türk otomotiv sektörlerinin, taşıt ve motor parçalarının Amerika pazarındaki Çin ihracatının yerini alabileceğini göstermektedir; öte yandan, tarım sektörü Çin pazarında ABD ithalatının ikamesi olabilir.

Anahtar Kelimeler: Çin-ABD ticaret savaşı, Fikri mülkiyet, Tarifeler, Türkiye, Etkilenen Sektörler, Vekil.

ABSTRACT

US-CHINA TRADE WAR: OPPORTUNITIES FOR TURKISH EXPORTERS

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July 2020, 94 Pages

The recent Sino-US trade war has negatively affected both China and the United States economies. The imposed tariffs increased the production costs of the affected goods and led the consumer price to increase. Trump viewed that the existing bilateral relations were favoring China and undermine the US. Trump accused China of the stealing the US intellectual property and the illegal mandatory technological transfer against companies as a preliminary step to enter the Chinese market contributed to the US trade deficit against China. A qualitative exploratory content analysis was used in this study to identify the main sectors affected by the US-China trade war and to analyze the opportunities for the Turkish exporters as a substitute for those sectors. Our findings in this research indicated that Turkish sectors of automotive, and vehicles and motor parts can be a substitute to the Chinese exports in the American market; while on the other hand, the agricultural sector can be a substitute for US imports in the Chinese market.

Keywords: Affected Sectors, IPR, Tariffs,Sino-US trade war, Turkey, Trade diversion.

DEDICATION

This thesis is dedicated to my beloved parents who did not hold back anything necessary for my comfort during my study. I hope this achievement rises up to their expectations from me.

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I would like to express my sincere appreciation to the University of IBN HALDUN for the scholarship they gave me, and for letting me fulfill my dream of being graduate student. I would also like to thank my thesis supervisor Assist. Prof. Omar Kachkar for his constant guidance and directing.

Dariq Khadar Nour

ISTANBUL, 2020

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CHAPTER I

INTRODUCTION

Lately, trade wars have been one of the most discussed topics both in the academic community and in politics. Trade wars are a form of economical protectionist in which countries impose tariffs or other trade barriers against each other (Kiraci & Akan, 2020). According to Conybeare (1987) there is a close relationship between the scope of the trade war affects and the size of the country's economics (Kiraci & Akan, 2020). Over the last 20 years, thanks to the globalization, the global political and economical tendencies underwent a drastic change towards liberalization and economical openness (L. cuiet al. 2019). China became one of the main beneficiaries of this economical liberalization, as it maintained over 9% annual GDP growth over the last two decades which (L. Cuiet al. 2019). This rapid economical growth led China to become the world's second largest economical power after US. Much of China's economical growth is due to a large part on its exporting capacity; according to the World Bank collection of development indicators, the average exports over the last two decades accounted 25% of the China's GDP.

China is the United States largest trading partner with over $557.9bn in trade volume. As the biggest source of US trade deficit with over $387bn, the trade deficit was the friction point between the two countries. US conducted more 'special 301 investigation' on China than any other countries. At the beginning of his campaign, Trump accused China in the trading field as a currency manipulator and threatened to impose punitive tariffs against the Chinese goods (Li, 2017). On July 6, 2018, the US implemented the first China-specific tariffs by imposing a 25% tariff which amounted to $34 billion and planning another 25% additional tariff worth at $16billion on Chinese imports. In a retaliatory measure, China responded by imposing 25% tariffs on 545 products imported

from the US on the second round of this tit-for-tat trade war between US and China, Aug 2, 2018 the US tariff revision USTR increase the tariff from 10% to 25% which amounted to $200 billion worth of goods, a day after, China responded with further retaliation by imposing tariffs on $200 billion worth of US products.

The trade frictions between US and China werenot new problems, but rather long standing economical, political and ideological differences between the gigantic countries.Most scholars pinpointed the causes of the trade friction between the US and China by two aspects: economy and politics (L. Cui et al. 2019).Economically, some studies suggest that trade deficit, exchange rates, and differences in the market system causedthe trade conflict between US and China (Friedberg, 2005; Hughes, 2005; Lin & Wang, 2018; Yang, 2012). Trade protectionism as a result of the economic recessions provides an important condition for trade friction (Irwin, 2017; Kim, 2014; Stiglitz, 2018), while the US over-dependence on the China's exports aggravates the tendencies of trade friction occurancies (Glaser & Viers, 2016; Woo, 2008).

The US imports trend has also changed as the trade friction with China started. While the US imports from China decreased by 12.3% from January to August 2019, US total imports declined by 0.03%, imports from other regions such as the Asian, EU and Mexico picked up (Mukherjee, 2020). Trade diversion led the imports from Vietnam and Taiwan to increase as some of the firms who used to operate in China relocated some their production (or at least final assembly) to avoid the US tariffs. The trade diversion created by the US-China levied tariffs on each other's goods and products, resulting in imports to shift away from them to other countries. While the tariffs have resulted in a sharp decline in US imports from China and the Chinese imports from the US, it created an incentive for the other manufacturing economies, making suppliers in the rest of the world to compete filling that gap and increase their export to US and Chinese.

1.1 Motivation Implication in the Turkish market

When two elephants fight, it's the grass that gets trampled. Well, here what this old African proverb implies is that when the world's two largest economies get to head to head it's the rest which suffers. Thanks to globalization and liberalizations the global

economies are becoming highly interdependent, although this increased the cooperation and the overall stability of the international system, it also created vulnerability somewhat since what happens in one country can have a direct or indirect impact on other countries. Soon after the US-China reciprocal trade war kicked off, MSCI'S world index which tracks stock shares of 47 countries fell down 0.1%; while International Monetary Fund (IMF) report stated that US-China trade war could affect global GDP by $455 billion or about 0.5% (Ravi Kant, 2019).

Up until now, the researches and studies conducted on the US-China trade war were extensively focusing on the impact of the trade war on the Chinese and the American companies while to a lesser extent on South Asian countries.The effects of trade diversion shows that the ongoing US-China trade war has resulted in a steep slope on the bilateral trade, increased prices for consumers and trade diversion effects to other countries not directly involved in the trade war (UNCTAD, 2019). Of the $250bn Chinese exports which are subjected to the US tariffs, only 6% will be substituted by the US firms while in contrary, Chinese companies will only pick 5% of the approximately $85bn US exports which are under the Chinese tariffs the rest will be supplied by the non involving third countries in a form of trade diversion ("UN warns of massive" 2019).

While American and Chinese exporting companies were losing shares on each other's market due to the imposed tariffs, other countries that produce the same products were gaining as a result of trade diversion (UNCTAD, 2019). Chinese export lost $35 billion in the US market, of that, $21 billion (or 63%) was diverted to other countries, while the rest $14 billion was either lost or captured locally by the US producers (UNCTAD, 2019). Countries like Mexico, Vietnam, and EU substantially gained from the trade loss of US and China by $3.5bn, $2.6bn, and $2.7bn respectively while to a lesser extent to Korea, Canada and India (UNCTAD, 2019). Turkey on the other hand, is expected to benefit from the trade war as is has a quite advanced and competitiveindustries in some of the effected sectors. This study tries to explore to what extent Turkey will benefit from the trade diversion and act as an alternative substitute source of the affected sectors in both US and in China.

1.2 Objectives

There will be three main objectives for this project,

a) To understand and evaluate the factors that contributed to the ongoing trade war between US and China.
b) To identify the main sectors affected by the US-China trade war with in the content of Turkey. Sectors will identified by looking into the Chinese products under the 301 section and the list of US products under the Chinese retaliatory tariffs.
c) Toexplore the opportunities for the Turkish exporters to substitute the affected sectors.

1.3 Research Questions:

1) What are the factors that contributed to the US-China trade war?
2) What are the main sectors affected by the trade war in the US and China?
3) What are the opportunities for the Turkish exporters in US and China?

1.4 Problem Statement

The cost of this ongoing U.S-China trade war is expected to surpass $700 billion in 2020, saidthe deputy chairman of the Union of Chambers and Commodity of Turkey (TOBB) (Şahin, and Ergöçün, 2019).The fact that exporting companies in U.S and China paid a heavy price and lost their competitiveness in each other's market due to the tariffs imposed by the two states would create an opportunity for other countries that produce the same product/goods exported by the U.S and China. As the result of this trade war, Turkey's export market share to U.S and China is expected to increase, specifically sectors of textile/readymade clothing to the U.S and vegetables, fresh fruits, and cereals to China (Çelik, 2019).The United States is the number one garment importer with a $103 billion in 2018 and is a huge market opportunity for the Turkish garment manufacturers'. Hadi Karasu, the President of the Turkish Clothing

Manufacturers Association (TGSD) stated that Turkey was in terms of speed ahead of China and that they are trying to increase their exports to the United States (Çelik, 2019).

Due to the tariffs imposed by China and United States oneach other's imported goods, competitiveness of both countries companies on each other's market decreased, thus making other countries not involved that produce the same products beneficiaries as a form of trade diversion. This research aims to explore the trade war affected sectors in China and inthe United States and the extent to whichTurkish exporters can act as a substitute sourcefor those sectorsin both countries.

1.5 Historical theoretical background

1.5.1 International trade theories

International trade is the economic transaction between countries and states. International trade in its contemporary understanding allows countries and states to expand their markets of goods and services for the purpose of providing a country with the commodities itlacks and in return exchanging it with those locally available goods and services (Allais et al, 2019). However, nations have not always considered free trade and exporting goods and services from another country an ultimate way of conducting trade; in fact it was seen as a disadvantage that jeopardizes one countries economical power.

1.5.1.1 Mercantilism

The term 'mercantilism' is widely referred to a period of European history from 16th to 18th century during which absolute monarchies implemented illiberal policies of protectionism and trade monopolies based on false premises (Beuve J, Brousseau E, and Sgard J, 2017. Mercantilism argues that the possession of wealth, particularly wealth in the form of gold, was of vital significance for national policy services (Allais et al, 2019). Mercantilists saw international trade as a zero-sum game. Thereby, a nation can increase its economical share by encouraging and promoting exports and discouraging

imports (Allais et al, 2019). In other words, one country's economic gains are at the expense of another. Mercantilism sought the world economical resources as a finite and scarce, so their main goal was toachieve and maintain trade balance which will be accomplished by bringing gold and silver into the country and also to maintain domestic employment (Lahaye L, 2008).

1.5.1.2 Absolute advantage

The absolute advantage theory was developed by the Scottish social scientist Adam Smith in his famous book THE WEALTH OF NATIONS. Absolute advantage theory like other liberal theories which came after it was a reaction against the mercantilist view of economics which encouraged exports and discouraged imports services (Allais, 2019). Liberal economists advocated for free flow of trade between nations and removing trade restrictions. Smith suggested that tariffs and quotas should not limit the flow of international trade as no country is able to produce all the products it needs with the suitable price range it wants as factors of endowments vary across countries (Essays UK, 2018).

Contrary to Mercantilism theory which views trade as a zero-sum-game, Absolute advantage theory views trade as win-win as both counties are better off if they allow the free flow of trade. The speculation of absolute advantage destroys the Mercantilists concept that international trade could be a game. Absolute cost advantage appears to show that a country's imports goods that are cheaper abroad and exports goods that are more expensive abroad. A country has an absolute advantage in producing a good over another country if it utilizes fewer resources to produce that good (OpenStax.2016).

1.5.1.3 Comparative advantage

First introduced by the British economist David Ricardo in 1817, comparative advantage is one of the basic ideas of international trade theory (Essay Uk, 2018). Several questions arise from Smith’s absolute advantage assumption that each country can produce one product with less cost in terms of human labor than the other and thereby

can sell the good at a cheaper price (Schumacher, 2012). In other words, countries are better-off utilizing all their resources in the production of the goods/products which it has an absolute advantage in and exporting them. On the other hand,country should import goods/products which the opportunity cost of importing is lower than the expenses of producing them locally.

Ricardo in his theory of comparative advantage is trying to answer the question of "what if a country has absolute advantage in all products or has no absolute advantage in anything?" According to Ricardo "like a person, a nation gains from trade by exporting goods and or services which it has the greatest comparative advantage in productivity and importing those which it has the least comparative advantage". According to comparative advantage, specialization leads to a more efficient distribution of world resources, thus, enabling both countries to produce large outputs.

CHAPTERII

LITERATURE REVIEW

2.1 Background

2.2 US-China Trade War

The global economy works best when goods, services, people, capital, and ideas flow freely and openly across national boundaries (Tan & Chen, 2019). The current economic boom and prosperity that we are enjoying are due in no small part, to the benefits of international trade and the globalization of cross-border trade (Tan & Chen, 2019). Although trade among nations makes the involved parties and the whole world better off, yet it's prone to one of the most disputable of political issues, both domestically and between governments (McDonald, 2018).

As top number one and two countries in the world in terms of economic volume, the trade frictions between US and China was always a matter of disagreement between the two nations as it was a topic of discussion among the scholars and researchers (Zhu Z, Yang, &Feng, 2018). Since they established diplomatic relations in 1979, the Sino-US trade volume developed rapidly, mainly after China joined the United Nations. Their total trade increased from $5 billion in 1980 to $583.7 billion in 2017. In other words, the trade volume between the US and China increased more than 116 folds within 37 years. China is American biggest import market. Besides, since China surpassed Canada in 2015 for the first time, China has been American largest cargo trading partner (Zhu, Yang, & Feng, 2018). March this year when the White House announced that it would impose an import levy of about 25% and 10% on steel and aluminium respectively on all America's export countries. Although the primary target of these tariffs was China, nevertheless some of the closest allies such as the EU and Canada were affected by the decision. Although most of these countries somewhat responded in a retaliatory manner

by imposing levies on certain American imported goods, it was China that got the most attention over the others.

Table 2. 1. Trade between China and the US from 2008to 2017($100M)

Zhu Z, Yang Y, and Feng S, 2018

Year	Total Trade	China Export To US	China Imports To US	Trade balance
2008	3344.3	2528.44	815.86	1712.58
2009	2990.5	2212.95	777.55	1435.4
2010	3865.14	2837.8	1027.34	1810.46
2011	4481.35	3250.11	1231.24	2018.87
2012	4872.04	3534.38	1337.66	2197.02
2013	5224.59	3690.64	1533.95	2156.69
2014	5571.64	3970.99	1600.65	2370.34
2015	5586.72	4099.79	1486.93	2612.86
2016	5207.98	3856.78	1351.20	2505.58
2017	5837	4298	1539	2758
2018	659.8	539.5	120.3	419.2
2019	558.87	452.4	106.63	345.77

2.3 Chinese Economic miracle

The remarkable growth and the performance of the Chinese economy otherwise known as the "Chinese miracle" was a bigger prodigy than the earlier 'East Asian miracle' in Hong Kong, Singapore, Taiwan, and South Korea (also called Gang of Four) (Ray, 2002). Despite China being the largest in terms of land and population size with the most complicated in terms of social and historical structure than any of those as mentioned earlier, however, that did not deter China to achieve this astonishing economic development. China under Xiaoping administration introduced the reforms gradually in contrary to Eastern European countries which adopted shock therapy policies in an attempt to change the market economy instantly (Chow, 2018). Ray (2002) argues that to achieve economic improvement, most of the transitional countries underwent an extended period of declining production, high unemployment rates, high inflation, sharp foreign exchange and debt problems. However, interestingly, China somehow managed to accomplish these goals with the least social and political expenses of reforms.

Even in the economic sphere, there was no immediate crisis in China unlike the Soviet bloc countries, which were going through much more severe economic shortages and severe foreign exchange crises, forcing them to approach western governments and multilateral institutions (like IMF and World Bank) for economic assistance. Consequently, they had to institute economic and political reforms the way the western powers and western experts wanted. They had little freedom to maneuver. The new Chinese leaders were frustrated with the slow pace of growth and lack of modernization in the Chinese economy under Maoist rule. It was clear to these new leaders that the Maoist vision of a new society based on non-material incentives as well as the Maoist strategy of economic development based on local-level self-sufficiency and abstaining from foreign technology, goods and capital had failed (Ray, 2002).

The sense of frustration became even more critical as they looked to the east and saw the economic miracle that was taking place in countries that had close ethnic and cultural ties with the Chinese mainland, particularly Taiwan and Hong Kong (Ray, 2002), so

Chinese leaders tried to develop the path gradually through local experimentation in limited areas. They initially permitted and later encouraged new initiatives at local levels by decentralizing fiscal and administrative powers. If local experiments turned out to be successful, then, the same would be extended to more areas. From the start, the paramount leader Deng made it clear that they would not follow any particular country's development model nor would they dismiss the single-party political system maintaining tight control over society (Ray, 2002).

In addition to that, the market reforms would have to be gradual and systemic, thus limiting the cost of the adjustment. So for instance, the state-owned large-scale industrial units remained virtually unreformed (basically to keep the human cost of adjustment low), and it was hoped that the fast-growing non-state sector (because of reforms) would eventually make the state sector mostly irrelevant (Ray, 2002). The Chinese leaders came to the conclusion that the first reform was to liberalize agriculture by starting the de-collectivization and permitting the product to be sold in the free markets at market-determined prices without any government intervention (Ray, 2002). Before starting the economic reforms and the trade liberalization of about 40 years ago, China continued using policies that kept the economy inferior, static, centrally controlled, immensely ineffective, and quite isolated from the world economy (Morrison, 2019).

Since 1979, after opening up to foreign tradeinvestment and the realization of free-market reforms in, China become one of the world's fastest-growing economies with an average yearly gross domestic product (GDP) of 9.5% which enabled China to double its GDP every 8 years and uplifted approximately 800 million people out of poverty (Morrison, 2019).

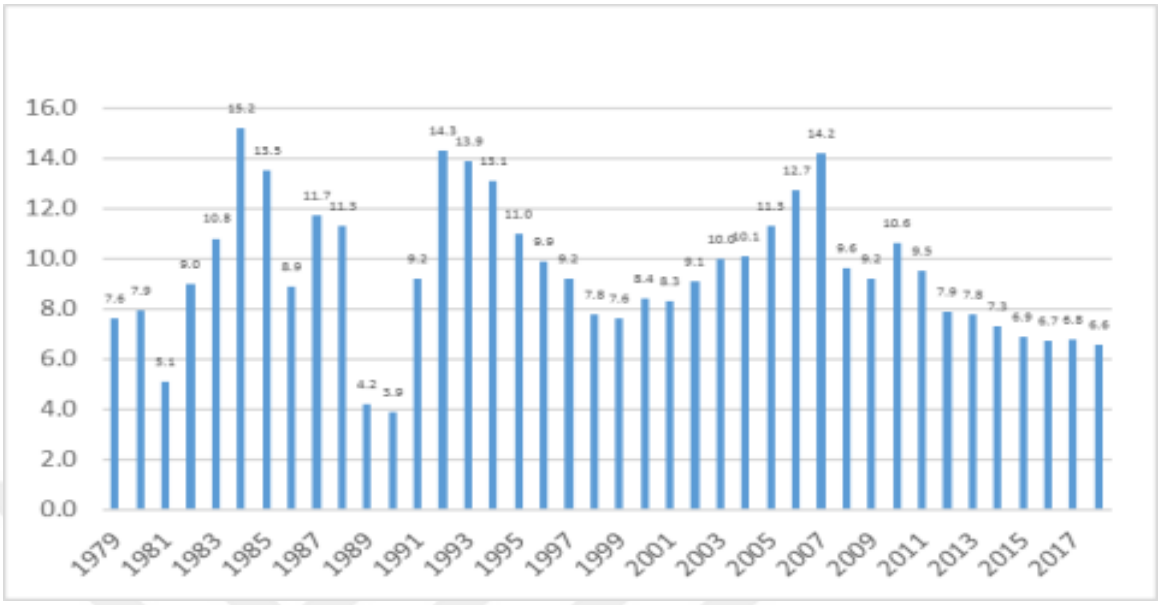


Figure 2. 1. Chinese Annual Real GDP Growth: 1979-2018 (percentage change)

Source: IMF, and Chinese National Bureau of Statistics

Experts mainly associate much of China's fast growing economy for two main factors: large-scale capital investment (largely financed by the domestic savings and foreign investment) and rapid productivity growth (Morrison2019). Historically, China has successfully maintained a high level of savings; in fact in 1979 when the reforms were initiated, the percentage of domestic savings over the GDP was 32% (Morrison, 2019).

Nevertheless, much of the savings during this period were from the profits generated by the stated owned enterprises (SOEs) which were used as a domestic investment by the central government (Morrison, 2019). On the other hand, the improvements of productivity was largely the result of reallocating resources to higher productive uses, especially in sectors that were formerly closely controlled by the central government, such as agriculture, trade, and services (Morrison, 2019). The economic decentralization of the Chinese government boosted the increase of non-state enterprises (such as private firms), which are prone to be more productive and efficient than the centrally controlled SOEs and tend to be more market-oriented (Morrison, 2019).

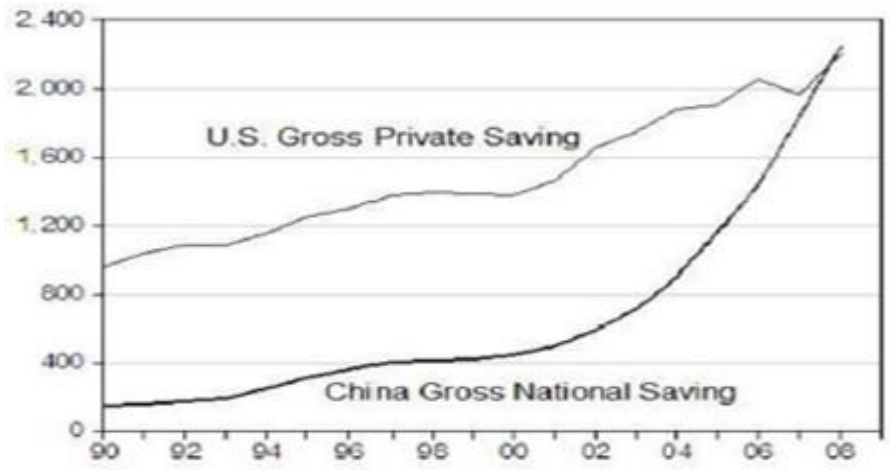


Figure 2. 2. PRC v. US aggregate savings

Source: Econobrower, 2009

The condition of the labour market, which possessed a comparative advantage of supplying abundant cheap and disciplined labour also contributed to the miracle of the economic development of China (Ray, 2002). With the largest population in the world, China can supply unskilled and semi-skilled labour cheaper than most countries. In 2017, the number of graduates from the Chinese universities was 8 million; this figure is approximately ten times higher than it was in 1997 while it's twice more than the students graduate from the US colleges (Stapleton, 2017). China produces three times as many engineers annually than the US and twice as many engineering doctorates (National Science Foundation, 2007, p. 4)'. In 2017, the number of university graduates in China hit a record number of eight million students, more than double that of US and ten times higher than it was in 1997 (Stapleton, 2017). The number of engineering students was growing at a high rate compared to other subjects as part of the Chinese government in developing technical labour-forces which can drive innovation (Stapleton, 2017).

Chinese universities produce three times as many engineers annually than the US and double as many engineering doctorates (National Science Foundation, 2007, p. 4). This massive number of graduates created an oversupply of the workforce in the market, which has led to underemployment among college graduates (Spies, 2011). However, one man's meat is another man's poison the fact that skilled labour was abundant with an

earning wage of $100 per week in the Chinese market created a perfect circumstance and a paragon opportunity for the US and other multinational corporation to invest and relocate their productions in China. Hence, they decrease the production cost and attain price competitiveness (Spies, 2011).

2.4 Tracing the US and China trade conflict

Since 1947, when General Agreement on Tariffs and Trade (GATT) was established at Geneva Switzerland, to abolish quotas and the reductions of tariff duties, the economic integration and trade liberalization as a power full means to promote economic development and poverty reduction took a spike. The successive multilateral and unilateral trade liberalization under GATT resulted in an increase of the signatory countries from 23 to 125 after enlargement and eventually the replacement of GATT to World Trade Organizations in 1995.

On the other hand, US After the election of US President Donald J Trump in 2017, the status quo of this trade liberalization, and the free open market was challenged by the multi-front tit-for-tat trade battles in what seemed as a protectionist policy. It was early March this year when the White House announced that it would impose an import levy of about 25% and 10% on steel and aluminium respectively on all America's export countries. Although the primary target of these tariffs was China, nevertheless some of the closest allies such as the EU and Canada were affected by the decision. Although most of these countries somewhat responded in a retaliatory manner by imposing levies on certain American imported goods, it was China that got the most attention over the others.

The US-China trade relationship is characterized by having many tensions due to the political and the ideological difference between the two countries. After all, it was the historic visit of US President Nixon to China in 1972 which led the rapprochement of the two countries and the reestablishment of the trade relationship after the 1949 US trade embargo on China as retaliation measure of the Chinese involvement in the Korean War. From an early stage, the Communist leaders realized that if anyone could help

them to rebuild China from the ruins of WW2 and the civil wars which followed them, it would be the United States due to their financial and technological capabilities.

This message was clearly indicated at the statement given by then the mayor of Shanghai and later Foreign Minister General Chen Yi where he stated that any kind of foreign aid would be welcomed to China including from the United States and Britain on condition it is offered based on national sovereignty and equality. However, the reaction of the majority in the United States about this call was mainly suspicion about the offer and in favor of the continuing the trade embargo. A small minority of business people, and academicians, however, foresaw the potential market opportunity for the technology, and construction materials that were necessary for rebuilding war-torn China, and therefore they were eager to take the Chinese market in a monopoly since there were no apparent competitors.

Another ring which witnesses the trade tensions and trade war between the US and China more than any other was the World Trade Organization (WTO). Being 7th leading exporter and 8th largest importer of merchandise trade, in late 2001 China was accepted as a member of WTO, most countries especially the US were optimistic about the Chinese initiatives to open its market to foreign investments and lower tariffs of imported goods. Likewise, it was an opportunity for China to increase the market share of its exports and further develop their economy. Nevertheless, the situation didn't last long as the difference of trade policies arose and a fierce trade war started between the two countries inside the WTO.

The United States started implementing policies like Anti-Dumping (AD), Countervailing Duties (CVD), and Import Relief measures against China. Ka Zeng, (2013), argued that China was frequently targeted with AD initiatives under the WTO and most of these cases succeeded as the Chinese economy was regarded as a non-market economy (NME).

Figure 2. 3. Number of US Anti-dumping Investigations against China, 1980-2010

Source: Global Antidumping Database

After the election of Donald Trump as US president in late 2016, another chapter of US-China trade war started. In 2011, way before running for the presidency, Trump tweeted that "China is neither an ally nor friend; they want to beat and own our country". Also while he was campaigning for the presidential nomination of the Republican Party, Trump said "it's time to stop China from raping the US, and that is what they are doing. They are the greatest theft in the history of the world". However, after he was elected for the presidency things took a negative turn after Trump issued 30% tariff on all imported solar panels except those from Canada and 20% on washing machines. China countered by imposing tariffs of 25% on 106 US products worth $50billion including soybeans and automobiles.

On July 6, 2018, the US implemented the first China-specific tariffs by imposing a 25% tariff which amounted to $34 billion and planning another 25% additional tariff worth at $16billion on Chinese imports. In a retaliatory measure, China responded by imposing 25% tariffs on 545 products imported from the US. On the second round of this tit-for-tat trade war between US and China, Aug 2, 2018 the US tariff revision USTR increase the tariff from 10% to 25% which amounted to $200 billion worth of goods, a day after,

China responded with further retaliation by imposing tariffs on $200 billion worth of US products.

2.4.1 The causes of the US-China trade war

Trump administration justified the initiation of this trade war with China with three major concerns:

The US trade deficit with China: The Chinese-US trade account surplus enlarged from 1.52% of GDP in 1992 to a record of 6.04% of GDP in 2006. This coupled with the shrinkage of the US labour market and the loss of many jobs to China due to the relocation of companies in China to be more competitive in the market-led President Donald Trump to accuse China without mentioning its name and suggesting that it's a good idea to not trade with them. The US government alleged that large sum of the trade deficit with China is due to the Chinese unfair competition by supporting the local firms while undermining the foreign owned ones (Qiu, Zhan, & Wei, 2019). Nonetheless, the Chinese government denied that accusation and considered the trade deficit as an inevitable outcome of the US economic structure as a result of inadequate domestic savings in addition to the Chinese comparative advantage of the skilled cheap labour (Qiu, Zhan, & Wei, 2019)..

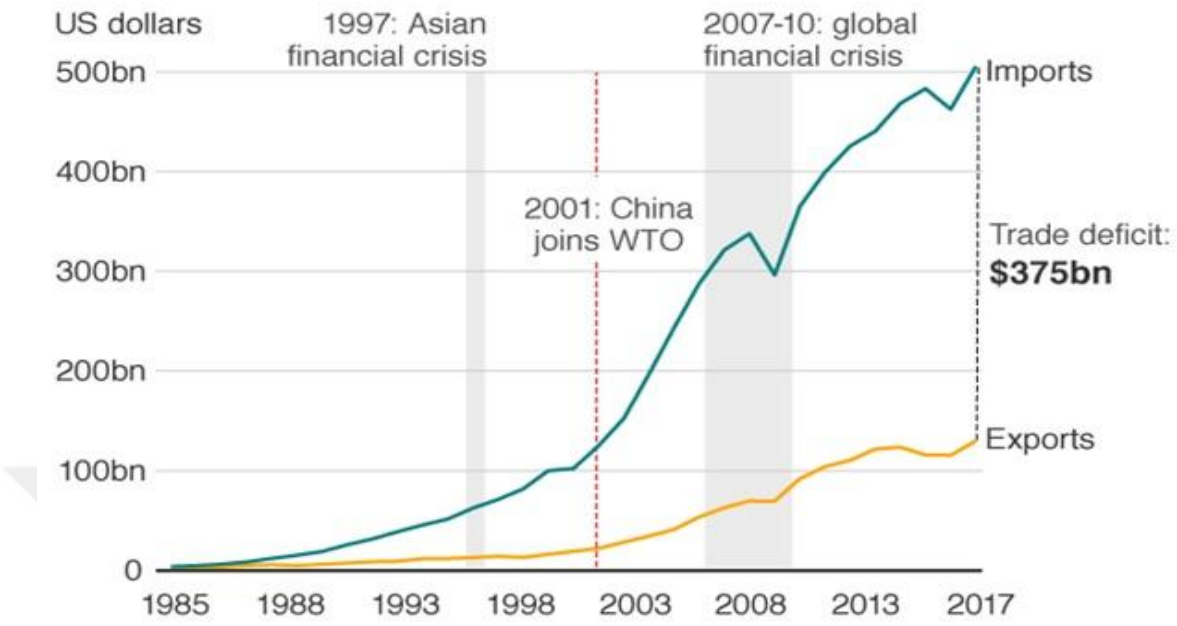


Figure 2. 4. US trades of goods with China

Source: US Census Bureau

The issue of intellectual property(IP): another justification of this trade war by the US was the issue of intellectual property and the accusation that most Chinese robust economies for the last three decades were the outcomes of illegally attaining the American technology and applying an unfair trade method to increase their economic share of the market. . According to a Wall Street article survey conducted by Davis and Wei 2018 on the members of the American Chamber of Commerce in Shanghai showed that, one in five of the members said that they had faced pressures from the Chinese government regarding the transfer of their technology; especially aerospace and chemicals companies reported a remarkable pressure as 44% and 41% of them respectively reported.

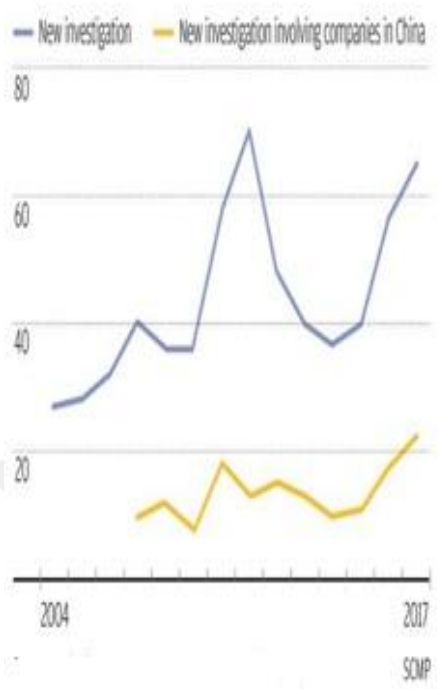


Figure 2.6 Number of IP cases investigations against China

Source: US International Trade Commision

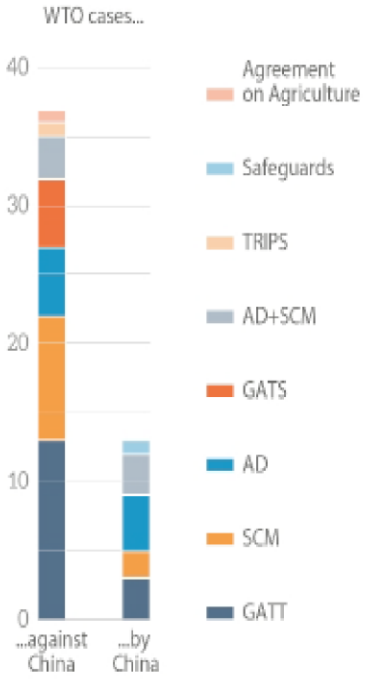


Figure 2.5 Number of WTO cases against and by China.

Source: WTO data

Since the Chinese market is not fully open to foreign direct investment (FDI), the only way which foreign companies can operate in the Chinese market and benefit their market power is to enter a joint venture with local Chinese firms. Some of these companies complained about forcefully transferring of the essential technological parts to their Chinese partners. However, despite the mandatory technology transfer, many US companies were relocating into China to capture a fair share of the Chinese middle class which, as anticipated, will surpass the entire US population by 2026.

National security: the concerns of China trying to weaken the US national security and threaten its international position played a significant role in this trade war. According to the United States National Security Strategy (NSS) which was published in late December 2017, the United States for decades experienced unfair trading practices from some countries, by using policies of dumping, unfair tariffs, forced technology transfer,

and by subsidizing to gain a more significant market share. The paper also accused China of undermining the American economy by stealing US technology in its early stages through systematic target of cyber-attacks.

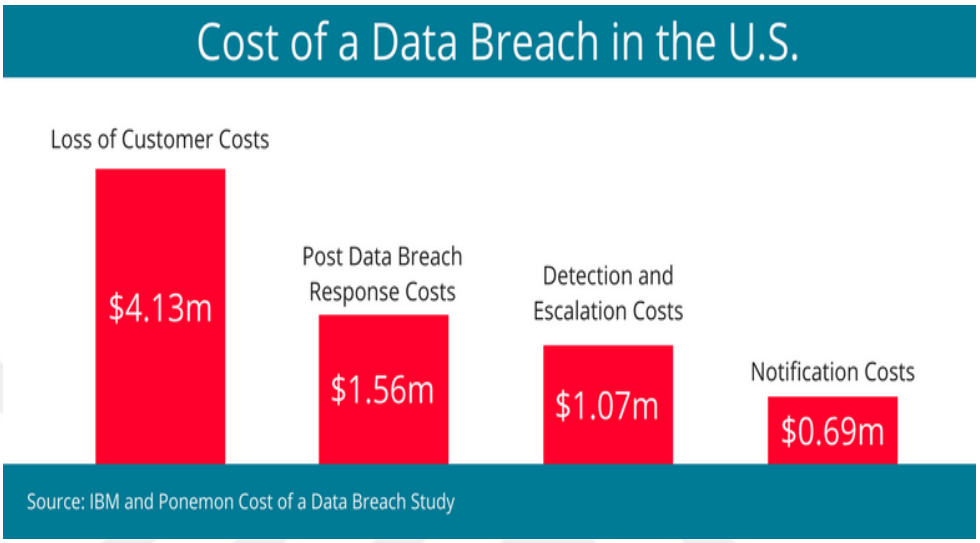


Figure 2.7 The cost of data breach in US

Source: IBM and Ponemon Cost of a Data Breach Study

As figure 2.7 above illustrates, the yearly loss of customers due to reputation damage and decrease goodwill costs the US business $4.13 million. In comparison, the post data breach risk containment costs about $ 1.56 million (Katz E, 2017). According to the statistics, more than 50% of American businesses experienced a cyber attack in 2016, counterfeiting issues is another crucial issue which played an essential role in this trade war as US President Donald Trump and his trade team accused China. However, they were not wrong, argued by Matthew Abbey. China is the largest source counterfeit good in the world which accounted for 63.2% of the seized counterfeit goods in 2013.

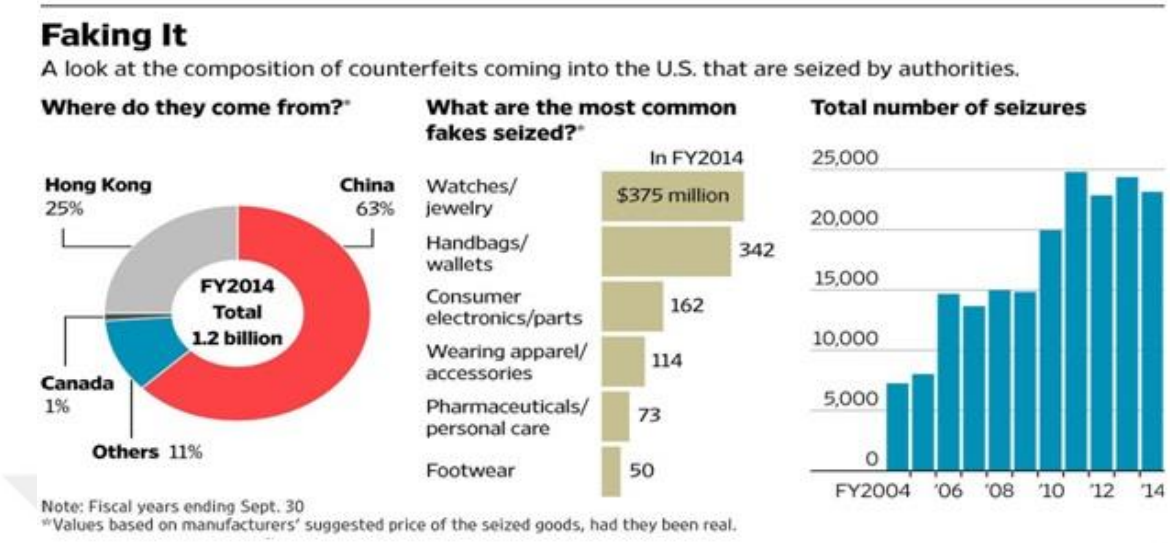


Figure 2. 8 Composition of counterfeits coming into the US

Source: US Homeland Security

Increasing cooperation and international interdependence over the past few decades have been accompanied by increasing rivalry among the competing nations, as the trade conflicts between highly industrialized countries intensified in an attempt to enhance and improve their domestic production (Zeng, Ka. 2004). Confronted with a powerful competition from the other developed countries that challenged the US economic dominance, the United States engaged in a series of trade conflicts with Europe, Japan and lately China, specifically in the high technology industries like aircraft and semiconductors (Zeng,& Ka. 2004). With the support of both empirical and the theoretical, literature on trade war Zeng concluded that:

In global trade wars and the implementations of protectionist policies can result in a lose-lose situation. (Zeng,& Ka. 2004)

A trade war between two unequal countries can result in losses for the small country while creating again for the bigger country. (Zeng,& Ka. 2004)

Not all countries can benefit from a trade war; instead, cooperation between parties can lead to an overall benefit; thus, becoming a better alternative to trade war. (Zeng, Ka. 2004).

2.5 Interdependency of US-China trade

Trump stated in one of his tweets that "When a country (USA) is losing many billions of dollars on trade with virtually every country it does business with, trade wars are good, and easy to win. When we are down $100 billion with a certain country and they get cute, don't trade anymore-we win big. It's easy!" (Trump tweet. 2018) However, reality shows the opposite and economic experts quite say the contrary. A research conducted by Erken, Giesbergen, & Vreede (2018) concluded that trade wars generally lead in one way, economic losses with the countries directly involved (U.S and China) in this case being the most affected. But also other countries are negatively impacted. In their study, Erken et al (2018) conducted two trade war scenarios:

Scenario one: includes the entire currently in place protectionist and tariff measures and its more realistic one among the two.

Scenario two:includes the assumption of the trader war turning into a full-fledged one in which the U.S targets all of the Chinese products and China does the same.

The study showed that the world economic growth will record 0.7ppts lower in 2030 compared to a trade war-free world in the first scenario, while in case of trade war escalation; global economic growth will be 2.0ppts lower in 2030. Furthermore, Rabobank's analysis showed that China will disproportionately bear the burden of the trade war. According to the study, China will lose 1.6ppts in the first scenario and 5.7ppts on the second scenario of its economic growth in 2030, compared a 0.9ppts and 1.6ppts in the US in the same period.

Since the start of globalization in 20th century, the world economy became highly integrated and interdependent as cross-border trade in goods and services, technology, and flows of investment, people, and information increased. Approximately 50% of overall gross US imports and exports contain intermediate goods which are made by other countries while in China this figure is even higher, about 70% (Erken et al, 2019).

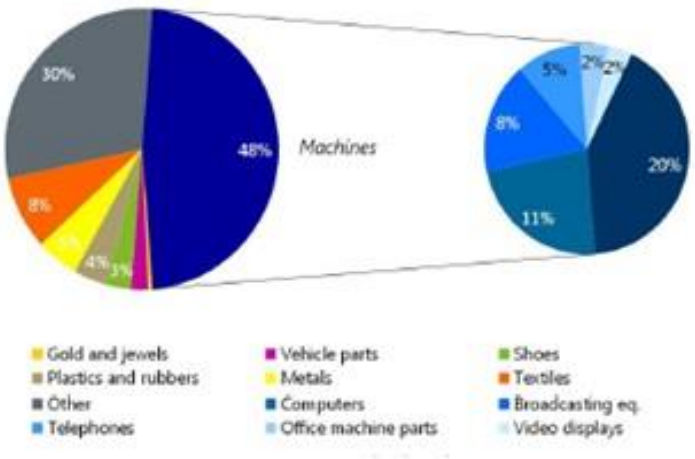


Figure 2.9 US imports from China and Hong Kong amounts to $ 490bn

Source: OEC, UN COMTRADE, Rabobank

With China being America's second-largest intermediate goods provider, applying higher tariffs on the intermediates can directlyor indirectly jeopardize industries in the countries that are involved and could disrupt the global supply chain (Erken et al, 2019). As the figure in the leftshows, the US imports China, Machines, electronics, vehicle parts, gold andjewels, plastic and rubber, textiles and shoes. Raising tariffs on final and intermediate products imported to the US will increase domestic prices for US consumers and producers. (Erken et al, 2018). In the case of US firms assembling their products overseas, higher costs can only partially be passed onto consumers and so this will eat into their profit margins; as such these tariffs could shock the US stock market as well (Erken et al, 2018.).

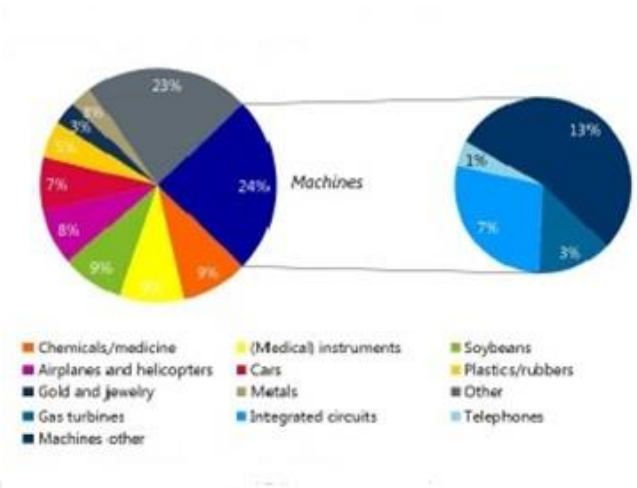
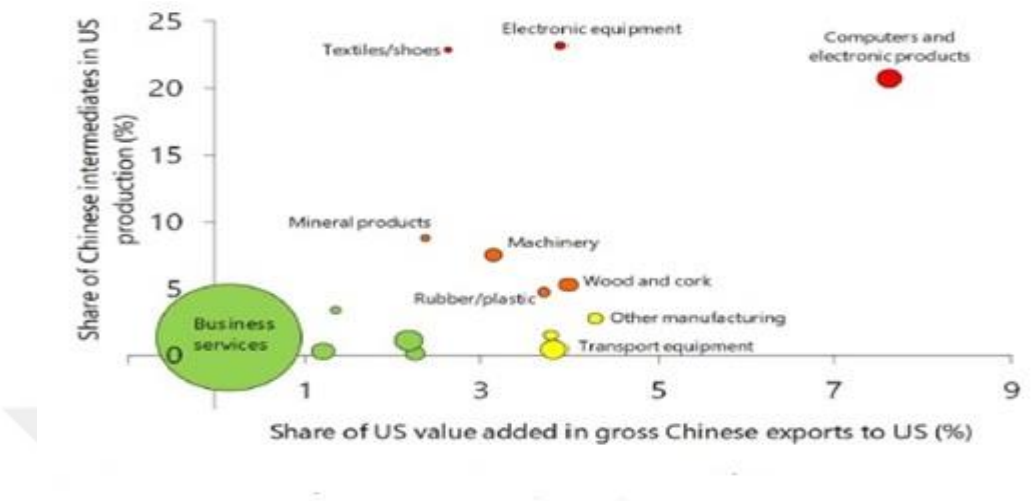


Figure 2.10 Chinese and Hong Kong Imports from the US are $ 160bn

Source: OEC,UN COMTRADE, Rabobank

China in the other hand, imports from US Machines (i.e gas turbines, telephones, computers, integrated circuits, computers), chemicals, soybeans, etc. With machines taking the loins to share on the Chinese exports to the US (24%), China is forced to target that sector and as the US is regarded as the peacock of many high tech technology, and China will face the hard to find asubstitutes for US products (Erken et al, 2018).

The US-China trade war will directly affect some sectors and others indirectly. In the US the auto industry will be directly affected by the US tariffs. For instance, Tesla reported that the tariffs on the Chinese parts raised the cost of the company's costs by $50 million in Q4 2018 (Erken et al, 2019). On the other side, the telecommunication gains Huawei suffered from the trade war as the US put Huawei name on the blacklist as a punishment and as result of that, Huawei's US key suppliers were no longer sell components to it (Erken et al, 2019).Although the ban was mainly against Huawei, nevertheless the U.S and other foreign companies that supplied Huawei were also affected (Erken et al, 2019).

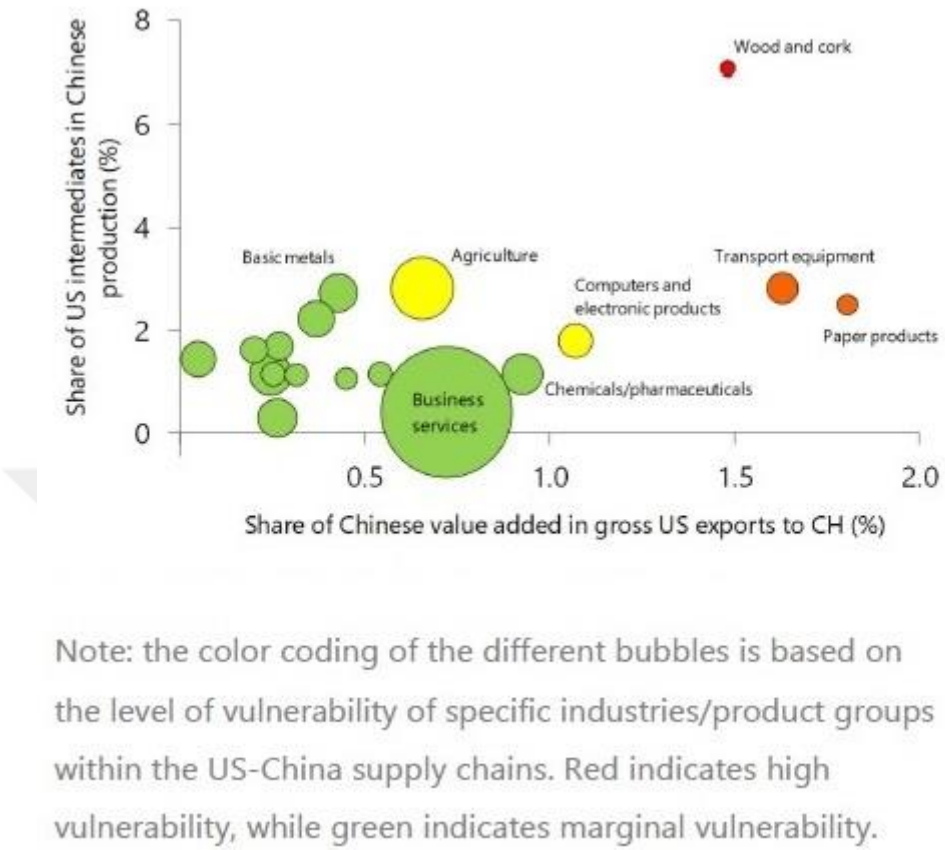


Note: the color coding of the different bubbles is based on the level of vulnerability of specific industries/product groups within the US-China supply chains. Red indicates high vulnerability, while green indicates marginal vulnerability.

Figure 2.11 Dependency of US industries on Chinese intermediates

Source: OECD TiVA database (2015), Rabobank

The above figure shows that the U.S computer and electronic products sector seems to be affected the most by the trade war. Likewise, electronic products, textiles, and shoe sectors are also among the most vulnerable US sectors in the ongoing trade war (Erken H, Giesbergen B, and Nauta L, 2019, Rabobank). The products in these sectors are more likely to show an increase in price as 20% of US production in these industries contains Chinese intermediaries especially on the supply of the rare earth elements in which China produces 80% of the global production (Erken el al, 2019).



Note: the color coding of the different bubbles is based on the level of vulnerability of specific industries/product groups within the US-China supply chains. Red indicates high vulnerability, while green indicates marginal vulnerability.

Figure 2.12 Dependency of Chinese industries on US intermediates

Source: OECD TiVA database (2015), Rabobank

China's wood and cork products industry seems according to the above figure the most vulnerable sector on the US tariffs as 7% of the Chinese production depends on US supplies as an intermediary good (Erken et al 2019).

By focusing only into the trade balance and the US trade deficit against China, one may miss diagnose and misinterpret the real issues asthe economic relationship between US and Chinese iscomplicated than merely looking into their trade balance. The ongoing bilateral trade tensions revolves around the US concerns over the specific Chinese economic model which systematically inclines the playing field in favor of Chinese firms both domestically and globally (Meltzer,& Shenai, 2019). US also showed great concerns on the China's use of state owned enterprises (SOEs) over their access to the state subsidies which making a fair competition among foreign companies extremely difficult (Meltzer & Shenai, 2019). However, China's transformation from a

predominantly state owned enterprise and a nation with sceptical tendencies towards the capitalism system to a state of a vibrant economy with millions of privately owned industries and becoming the a hub for the international foreign direct investment (FDI) was hard to ignore even by the Americans (Meltzer,& Shenai, 2019).

This transition benefited for China's first trading partner US. A study conducted by Oxford for the US-China Business Council 2017, suggested that China has contributed more to the United States economy than the recent headlines indicate. Recent data shows that China's imports from US supports approximately around 1.8 million jobs in the US especially in sectors like agriculture and services (Oxford Economics, 2017). US trade deficit with China stood a whopping $345bn in 2019, however this number is not all caused by China; as China became an essential part of the global manufacturing supply chain, many of its exports are composed on components produced outside and brought to China for the final assembly (Oxford Economics, 2017).. If the value of those parts is subtracted from the China's total exports to US, China's trade surplus with US would be reduced by half (Oxford Economics, 2017). In other words, United States trade deficit would decrease if other countries value added is reduced from the Chinese imports.

CHAPTER III

METHODOLOGY

3.1 Introduction

The purpose of this chapter is to introduce and discuss the research methodology for this qualitative content analysis study regarding the impacts of the US-China trade war on Turkish exports. This method and approach facilitate a deeper understanding and examine the effects of US-China trade war on each other's economy and its impacts on the global supply chain. Also, this approach will analyze the opportunities and benefits it poses to the Turkish exporters and in addition to which sectors will gain from it in the long run. Also, this chapter contains a detail philosophical discussion of the research method chosen.

3.2 Selecting the proper research approach

Research approaches are procedures, and plans the range from broad assumptions to specific detailed methods such as data collection, analysis, and data interpretation (Creswell, 2009). Creswell (2009) stated that when conducting this plan, the selection of specific research approach is determined by the nature of the research problem and the issue in the matter for the researcher's personal experience and the intended audiences. The researcher should adopt philosophical assumptions when deciding which approach should be used for the topic being addressed (Creswell, 2009).

Although there are many ways in which a researcher can choose to develop an approach which suits most for his particular study, however, there are three main highly used research approaches namely; qualitative, quantitative, and mixed methods Creswell (2009). These three methods are not distinct or independent from each other and certainly should not be treated as such. Creswell (2009) stated, "Qualitative and quantitative approaches should not be viewed as rigid, distinct categories, polar

opposites, or dichotomies." (p.36). In fact as pointed out by Newmand and Benz (1998) qualitative and quantitative represent the different ends of a continuum as a study could tend to be quantitative than qualitative, and the opposite could be true. Mixed methods research inhabits right in the center of the continuum as it combines parts from both quantitative and qualitative approaches. (Creswell, 2009).

Table 3.1. Research Methods

Qualitative	Quantitative
Subjectivity valued	Objective
Multiple realities	One reality
Discovery, description, understanding	Reduction, control, prediction
Interpretative	Measurable
Organismic	Mechanistic
Whole is greater than the parts	Parts equal the whole
Report rich narrative	Report statistical analyses
Researcher is part of the research process	Researcher separates
Participants	Subjects
Context dependent	Context free

Source: Schubert, 1999a

In this research, a qualitative approach will be applied to understand the impact of US-China trade war and the opportunities it might pose for Turkish exporters.

3.2.1 Qualitative research

Qualitative research is a non-numeric research which involves getting data through nonstatistical analytic procedures and ways. Denzin and Lincoln (2005) stated that "Qualitative research involves the studied use and collection of a variety of empirical materials – case study, personal experience, introspective, life story, interview, observational, historical, interactional, and visual texts – that describe routine and problematic moments and meanings in individuals' lives" (p.2). Historically, qualitative research origins come from disciplines of anthropology, sociology, humanities, and evolution (Creswell 2009). Qualitative research is concerned with understanding the unique characteristics of the phenomena under study, rather than generalizing into other contexts. (Martin, & McKneally, 2000).

Table 3.2 explains some of the mostpopular qualitative methods:

Table 3. 2. Major qualitative design

Approach	Application/Purpose
In-depth interview	Explore individual experience and perceptions in rich detail
Focus group	Generate unique insights into shared experience and social norms
Observation	Learn about behaviors and interactions in natural setting; study cultural aspects of a setting or particular context
Document review	Indentify patterns of communications; describe characteristics of organizations or processes

Source: Yale Global Health Leadership Institute

Qualitative research is a broad research approach, with various types of techniques and ways of conducting such research.For the sake of this research, a document analysis will be conducted by using secondary data from texts, reports and pictures available.

3.2.2 Justifying the use of document analysis.

Document analysis is a type of qualitative research by which documents both printed and electronic are analyzed and interpreted by the researcher to give meaning on the assessed topic (Bowen, 2009). Documents that might be used to carry out systemic analysis can be in different forms, including books, brochures, maps, charts, figures, newspapers, etc. (Bowen, 2009). Denzin, (1970) stated that document analysis is often used with the combination of the other methods of qualitative research by using multiple sources of evidence to reduce the impact of potential bias. Although document analysis is used mostly as a complement to other types of research methods, nonetheless, in some researches it has been used as a sole method, for instance, Wild, McMahon, Darlington, Liu, and Culley (2009) (Bowen, 2009).

Why use document analysis? Well, the documentsprovides supplementary research data where it can supply background information and broad coverage data that are useful in contextualizing one's research within its subject (Bowen, 2009). Documents are commonplace for data access and come in different of forms, making documents very accessible as well as a reliable source of data (Triad 3, 2016). In addition to that, obtaining and analyzing existing documents is often more cost and time-efficient rather than carrying out your research or experiments (Bowen, 2009). Many documents, reports, figures, and pictures dealing with the trade volume between US-China, US-Turkey, and Turkey- China were available in several trustworthy databases such as World Trade Organization (WTO), Observatory of Economic Complexity (OEC), World Bank (world integrated trade solution). These data were conducted by far more experienced professionals and institutions which unlike me had the unlimited access of resources and data. So by using these data and reports, it eliminated and neutralized some of the personal errors that otherwise would happen.

3.3 Research Design

This section explains how this research was designed in terms of the techniques used for data collection, sampling strategy, and data analysis for a qualitative method. Before conducting the methods of data collection and analysis, a set of research questions was developed

3.3.1 Research Questions

Research on the US-China trade wars is a very contemporary issue and the literature/studies done in this matter are very few and mostly limited to an analytical part (Chunding, Chuantian, and Chuangwei, 2018).

According to Antoine Bouet and David Laborde article on US trade wars in the twenty-first century with emerging countries

"We note that US protection on Chinese goods is 3% on average, while it is 0% for Mexico due to NAFTA. China imposes an average import duty of 5% on goods coming from the USA and Mexico if we do not account for the duty drawback scheme. It is interesting to note that the USA is not particularly mistreated in terms of access to China." (p.16)

Over the past decades, free trade policies under which governments do not discriminate imports by applying trade-restrictive measures such as tariffs in favour of exports dominated the international trade system. However, the status quo was challenged after the rise of populism in Europe and in the USA. A research on the analysis of public addresses of presidents, prime ministers and chancellors in 40 countries, concluded that the number of populist leaders increased more than double in the last 20 years (Lewis el al.2019). In this research, we will look to what extent did the rise of populism contribute to the ongoing trade war between China and the US.

When two elephants fight, it's the grass that trampled. Well, here what this old African proverb implies is that gets when the world's two largest economies go head to head, it's the rest of the world which suffers. Thanks to globalization and liberalizations, the

global economies are becoming highly interdependent. However, this increased the cooperation and the overall stability of the international system, it also created some vulnerability since what happens in one country can have a direct or indirect impact on other countries. Soon after the US-China reciprocal trade war kicked off, MSCI'S world index which tracks stock shares of 47 countries fell down 0.1%; while International Monetary Fund (IMF) report stated that US-China trade war could affect global GDP by $455 billion or about 0.5% (Ravi Kant, 2019).

Not all countries however will be negatively affected by this trade war. Asia's emerging economies are among one of the biggest winners in this ongoing tit-for-tat U.S-China trade war. In the first half of 2019, exports of developing Asian markets increased by 10% while exports from Vietnam and Bangladesh rose by 33% and 13% respectively (Pakistan & Gulf Economist, 2019). On the other hand, Turkish steel and aluminum exports to the US were also subjected to 50% and 20% tariff (Mehmood –Ul-Hassan Khan, 2018). Although the United States halved the tariffs on imported Turkish steel, however Turkish preferential trade treatment was terminated (Humeyra Pamuk, and Eric Beech). In this study, we are going to understand and explain with this ongoing trade war, what opportunities the Turkish market could have and which industrial sectors will gain from it. In this study, explanatory research questions were developed to guide the research and increase the understanding of the subject and a literature search was conducted to answer the research questions.

3.3.3 Data Analysis

To understand and discover the subject under the study, an in-depth literature review of enormous secondary data from the internet libraries was conducted. This literature search contained database sources of World Trade Organization (WTO), Observatory of Economic Complexity (OEC), World Bank (world integrated trade solution). Part of the collected raw data was then analyzed by using Microsoft Excel to produce picture and figures which easily and concisely explains the discussed topic. Other data which were extracted and collected from the databases were then analyzed by further explaining and commenting while reports were further analyzed and simplified.

3.4 Limitations

For further research, conducting quantitative research by using statistical means and programs such as SPSS or MATLAB would be needed instead of content analysis to triangulation and eliminating personal or institutional biases. For future studies in this topic, an interview with business managers, academicians, and policymakers could be incorporated as such interviews will contribute to the reliability of the study, as it would give you the perspective of different parties involved in the subject; and thus enforcing and backing the secondary data sources gathered.

CHAPTER IV

TURKEY-CHINA AND TURKEY-US TRADE VOLUMES

The Republic of Turkey is located at the intersection between Asia and Europe. This strategic place throughout history acted as a bridge as well as a barrier between the two continents (Workman D, 2020). Sharing borders with eight countries: Greece, Azerbaijan, Bulgaria, Iran, Armenia, Georgia, Iraq, and Syria, Turkey is located in a strategic geographical location (Workman D, 2020). The geographical location together with the skilled and youthful workforce, this transcontinental nation is considered a winning formula.

Turkey, an upper-middle-income country is the 27th largest export economy in the globe and the 52nd most complex economy as reported by the Economic Complexity Index (ECI). In 2019, Turkey exported $180.46 billion and imported $210.4 billion, resulting in a trade deficit of $30.06 billion (Ergocun, & Bicer, 2010). According to the Observatory of Economic Complexity (OEC), compared to the last year (2018), exports increased 2.02% from $166B while imports dropped 8.99% from $214B over the same period.

Figure 4. 1 Turkish GDP growth

Source: COMTRADE

The economic performance of Turkey was showing strong positive signs as over the last twenty years, the average annual growth of Turkey was 4.9%. Despite all the hitches, said by Turkey's Trade Mister Ruhsar Pekcan, Turkey recorded historical high as imports fell by 8.99% and trade deficit dropped 44.9% or about $24.4 billion (Ergocun & Bicer, 2010).

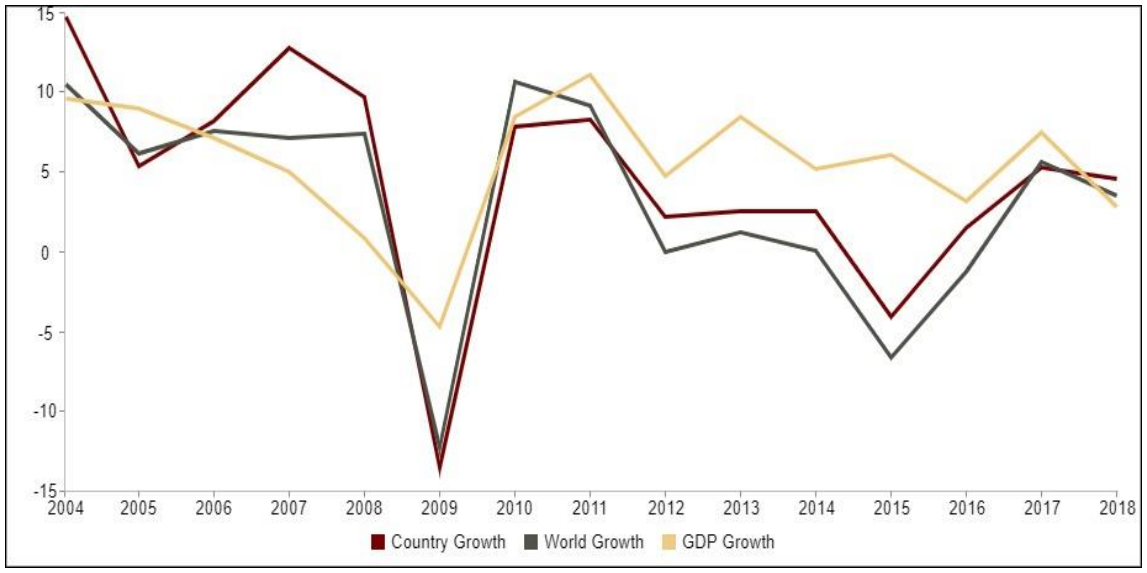


Figure 4.2 Turkey's GDP vs. world vs. country growth

Source: WITS

As figure 4.2 shows, Turkey's GDP growth compared to that of country and world growth. The Turkish GDP growth reached a record high of 11.6% in 2011 while a record low of -5 in 2009 caused by the 2008 debt crisis which originated from the US. Exports from Turkey

4.1 Turkey China

"Turkey has come a long way since the days its policymakers' approach to China1 varied between naivety -as illustrated in the idea of 'getting rich by selling one single orange to every Chinese" and indifference- as displayed by the words of a parliamentarian who referred to China as a country' (Istanbul: Milliyet Yayınları, 1998), p.176. Of which no good can come since it is located 15 thousand kilometers away from us" (Altı. vol 10. p.108).

According to the Turkish ministry of foreign affairs, China is the third-largest trading partners of Turkey after Russia and Germany and the first in East Asia. China is also Turkey's sixteenth export partner as well as the second import partner behind Russia (Turkey's Ministry of Foreign Affairs). In recent years, Turkey's continued economic development, political stability, and speeding modernization enhanced its international status as one of the forefronts of global governance (Zou Z, 2015). Turkey's foreign policy towards China varied between total disregard to being one of its top priorities. Turkey-China bilateral relations started with the treaty of friendship and commerce, which was signed in 1934 (Fidan, 2013).

A year after, formal diplomatic relations started with China sending its ambassador to Ankara in 1935 and in a reciprocal action, Turkey also sent its ambassador in Beijing in 1940 (Fidan, 2013). However, this relationship was short-lived after Turkey moved its embassy to Taiwan after the the formation of the People's Republic of China in 1949 and all the diplomatic relationships between Turkey and mainland China were halted (Fidan, 2013). In addition to this, the Korean War in 1950 played a crucial role in the relations between the two countries. Turkey sent 15,000 soldiers as part of United Nations coalition and sided with South Korea against the Chinese communist thus resulting in a

direct military confrontation between the two while relations stayed frozen until 1960 (Fidan, 2013).

Relationship between the two was resumed in 1970 after Turkey, among other western countries recognized the People's Republic of China after the Sino-Soviet split in the 1960s (Fidan, 2013). After the military coup in 1980, President Kenan Evren paid the first official visit to China since the relations were restored. This visit was aiming to increase the economic ties with non-western countries as the coup drifted Turkey away from the western block (Fidan, 2013). After the end of the Cold War, Turkey's foreign policy gradually changed from passive inward policy into a more proactive, more engaging and multidimensional one, with that, establishing relations with neighboring countries to reach new markets were the core ofTurkey's new foreign policy (Atli, vol 10). As argued by Altay Atli, the political issues such as Muslim/Turkic Uyghur in Xinjiang which used to be a friction point between the two countries was overshadowed by the economic pragmatism as Ankara saw that the economic ties with the world's second-largest economy are more important than the Uyghur issue, thus prioritizing its economic gains over the politics (Atli, vol. 10).

Development in the bilateral relations between Turkey and China was further anchored after the 2010 visit of the Chinese Premier Wen Jiabao to Turkey and together with back then-Prime Minister Recep Tayyip Erdogan stated that the relationship between the two countries would be upgraded to that of strategic partnership (Atli vo1. 10). At the end of 2010, China became the third biggest source of Turkey's imports and fourteenth largest Turkish export market(Atli, vol. 10).

4.1.1 Turkey Exports to China

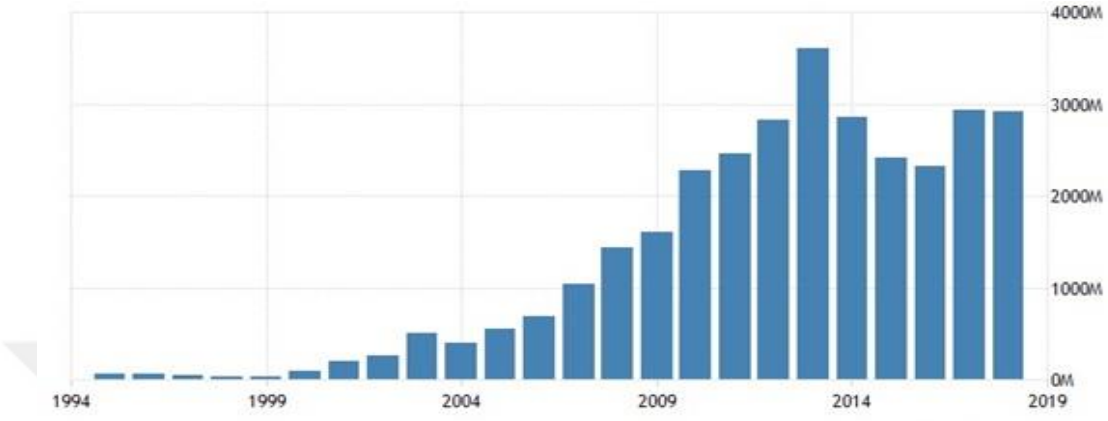


Figure 4. 3 Turkish Exports to China

Source: COMTRADE

Turkey's export to China in 1999 was $36.6 million according to World Integrated Trade Statistics data which was equivalent to 0.14% of its exports. In little over a decade, in 2013 that number jumped by more than 98 folds with a record high of $3.6 Billion or 2.37% of Turkey's overall exports. The Republic of Turkey shipped $171.1 billion worth of goods around the world in 2019. This amount reflects an 18.9% increase from 2015, and a slightly 1.9% increase from 2018 to 2019 (Workman, 2020). From a continental perspective, 56% of Turkish exports by value had been delivered to European nations while 25.9% had been offered to importers in Asia. Turkey shipped another 9.3% worth of items to Africa and 5.6% to North American customers while much smaller percentages of Turkish exports arrived in Latin America, Australia, and New Zealand (Workman, 2020).

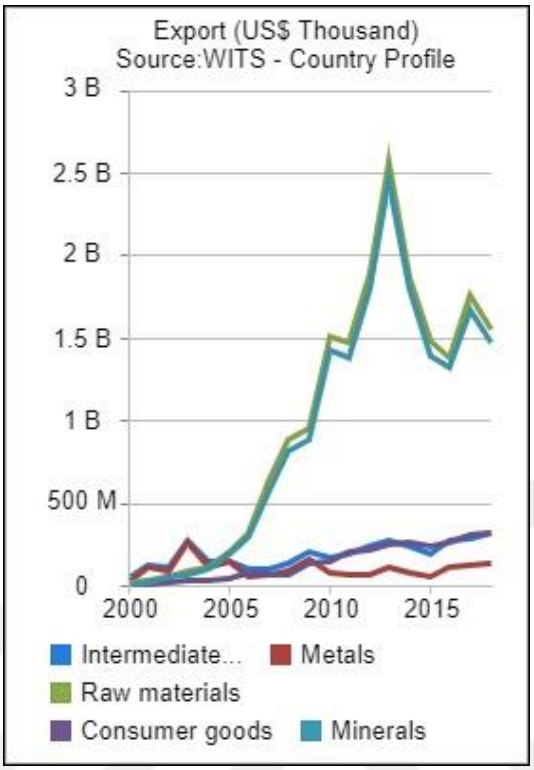


Figure 4. 4 Turkish top exports to China

Source: World integrated trade statistics (WITS)

Turkey's top ten export products accounted for almost 60.9% or three-fifths of the overall value of exports globally (Workaman, 2020). Vehicles amounted $ 26.2 billion or equivalent of 15.3% followed by machinery including computers which also amounted to $16.5 billion (9.6%). Knit clothing, accessories and Electrical machinery, equipment also accounted $9.1 billion (5.3%) and $ $8.7 billion (5.1%) respectively. The average exports from Turkey to China were 221.32 $ Million from 2014 till 2020, achieving an all-time record of $308.92 $ Million in August of 2017 and a record low of $ 107.07 Million in February of 2016 (Trading Economics, 2020). Turkey's exports amounted to $180.46 billion, said by Turkey's trade minister on Jan. 2019 up 2.04 percent, in 2019 compared to the previous year (Anadolu Agency, 2020). Foreign trade made the most significant contribution in the last 18 years in Turkey, a record contribution of 4.7 points to the nation's growth (Anadolu Agency, 2020).

According to a press released by Turkey's Trade Ministry in 2019, exports of raw material intermediate goods in Turkey were $85 billion, consumption goods $72.7 billion and capital goods $21.5 billion, while motor land vehicles were the largest export item of the country with a value of $26.88 billion (Anadolu Agency, 2020).

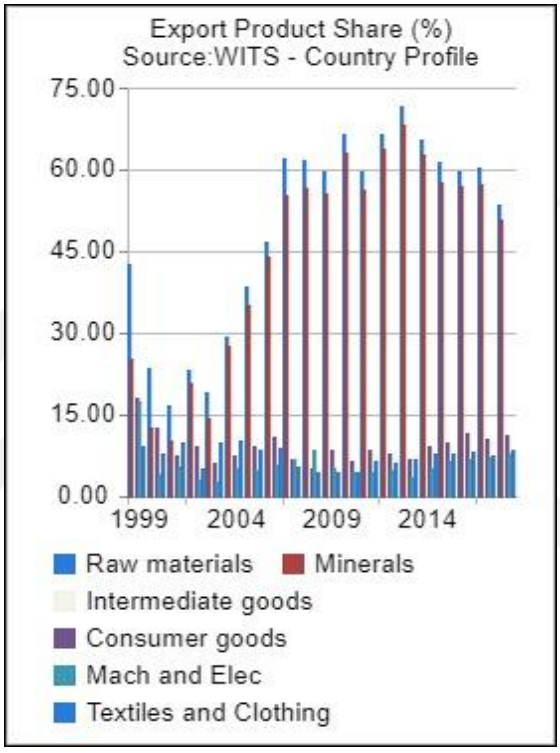


Figure 4. 5 Turkish export to China by product

Source: world integrated trade statistics (WITS)

According to Trend reports referring to the Turkish Trade Ministry, in September 2019, the trade turnover between Turkey and China increased by 12 $ million, compared to September the year before, exceeded $1.7 billion. Turkey's exports to China totaled over $224.4 million, while imports from China exceeded $1.5 billion (Hafizoglu, 2019). For the first nine months of the year 2019, Turkey-China trade turnover reduced by over $3.7 billion, in contrast to the same year in 2018, and amounted to $15.1 billion. On Sep 6, 2019, Turkish trade mister together with the Chinese Ambassador to Turkey Deng Li signed a memorandum of understanding by which the two countries will further increase

their economic cooperation. Turkish Trade Minister, Ruhsar Pekcan stated that China has become the 3rd biggest trade partner of Turkey, and Turkey is looking further to more cooperation with the Chinese companies (Xinhua, 2019).

Minerals take the lions share on the Turkish export to China of about an average of 46% of the overall exports. In 2018, Turkey globally exported $ 3.9 billion worth value of minerals, of that; $ 1.5 billion were exported to China (WITS Data). In 2017, Turkish exports of un-worked building stones such as salt, sulphur, plaster, lime and cement to China totaled a $951M. This, according to the OEC data, accounted for 86% of Turkey's production of those stones as well as 27% of the overall export of China. Miscellaneous is the second product that Turkey exports to China with a total value of $ 386.6M or 13.26%, followed by textiles and clothing and machines and electronics which totaled$ 244.8 M and $ 230.4M each and accounted for 8.4% and 7.9% of the Turkish exports to China respectively (OEC data).

4.1.2 Turkey Imports from China

In 2017, Turkey imported $214 billion, making it the twentieth highest importer in the world. During the final five years, the imports of Turkey have multiplied at a yearly rate of 1.1%, from $205B in 2012 to $214B in 2017. The latest imports are led by Gold which accounted for 7.95% of the total imports of Turkey, followed by Refined Petroleum, which represented for 4.56%. (OEC).

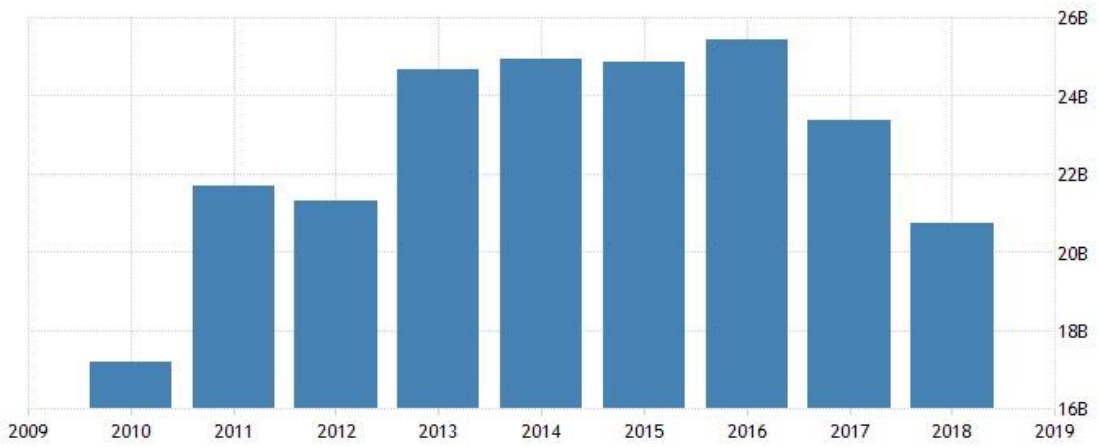


Figure 4. 6 TurkeyImports from China

Source: COMETRADE: Tradingeconomics.com

**According to UN'S COMTRADE, in 2018, Turkey imports from China totaled $ 20.72 billion. The number one products imported by Turkey from China were machines and electronics which accounted 49.2% or equivalent USD10.2 billion (according to WITS data). Chemicals and Textile and clothing followed by USD2.03 billion and USD2.05 billion respectively.*

4.2 Turkey- US trade relations

From a historical perspective, the relationship between Turkey and US signified a multidimensional based on mutual respect of each counties interest (Republic of Turkey Ministry of Foreign Affairs). A NATO ally and emerging market with a strategic geographical location that bridges between Asia and Europe, Turkey offers a great potential for U.S trade and investment (Congressional Research Service, 2020). With a GDP of $743.71 billion, Turkey was ranked number 19th of the world biggest economies. Although the relationship between the two countries dates back to 1831 after United States established diplomatic ties with the Ottoman Empire (Bureau of European and Eurasian Affairs, 2019), however, the current relations can be traced back in July 21, 1947 less than five years after the foundation of the modern Turkey when the Economic and Technical Cooperation agreement was signed by the two countries.

The security aspect of the US and Turkey was always the glue that sticks the relationship between the two countries. Despite the diplomatic relations that even predates the formation of the Republic of Turkey, it was not until the end of the World War II that a tangible alignment between the two countries relations was developed (CSIS, 2012). This situation is understandable since the relationship was primarily built on basis of urgent strategic needs against a common threat composed of the Soviet Union. This distinct perception of the common animosity towards the Soviets brought the national interests of U.S and Turkey into proximity. The United States long seen the Soviet Union's intention to include Turkey into its sphere of influence, to prevent that from happening, U.S ambassador to Turkey Edwin Wilson stated that "the defense of the Republic of Turkey was vital to the defense of the United States" (CSIS, 2012).

The security dominated relationship between Turkey and U.S witnessed a significant change in the 1990s as both countries changed the attitude towards each other. Turkey made significant economic changes by liberalizing its economic system and shifting from closed import substitute model to an open export oriented economy (Ayküz, 2000). As result of this economical changes, liberalized capital movements, welcomed foreign investment in to the country, and adopted export oriented policies (Ayküz A, 2000). As one of the biggest economies interms of marker size and the prospect investment poure in Turkey, the U.S market was targeted, and based on this frame work the Treaty of Concerning the Reciprocal Encouragment and Protection of investmetn was signed in 1985, and the Turkish-U.S Business Counsil was established after the Prime Mister Turgut Ozale's visit to the U.S (Ayküz, 2000).

Since the 1980s, the Turkish foreign trade volume increased more than three folds while its trade with U.S has grown more than five times on the same period (Grossman, and Marc, 1995).

4.2.1 Turkish Exports to US

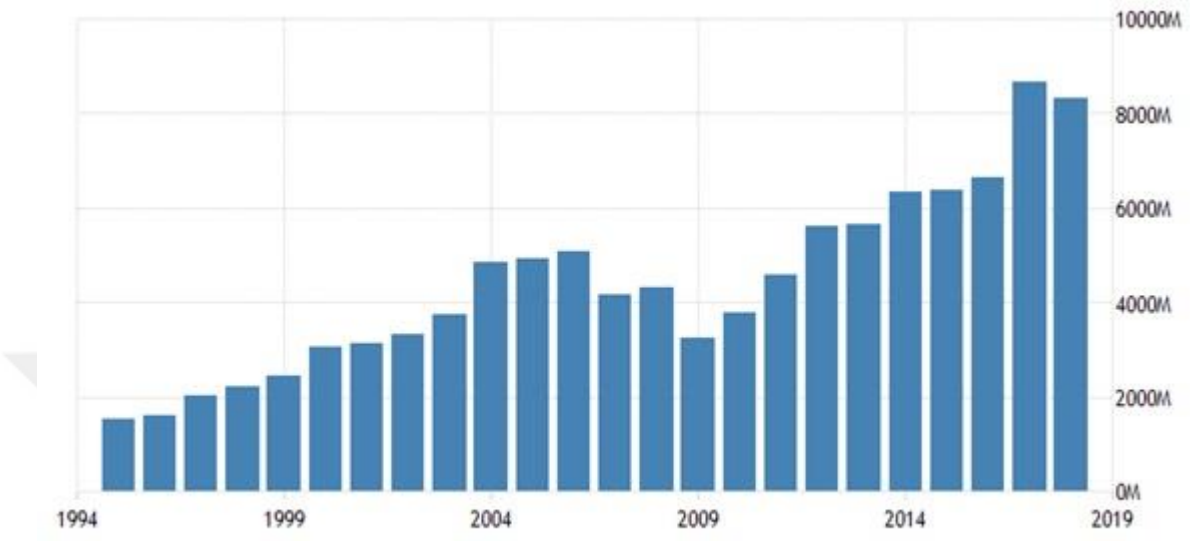


Figure 4.7 Turkey export to US

Source: COMTRADE: TRADIGECONOMICS.COM

In 2019, U.S was Turkey's second largest exporter of goods and fourth largest import partner. In 2019, Turkey exported a total of $171.1B worth of products globally which represented 0.9% of total world export estimated at USD$19.285 trillion (Workman D, 2020). Of this 10.6 billion or 11.7% of the goods were shipped to the US(US census Bureau data). This number was 323M or 5.7% less than the 2017 export. Turkey was the United States' 33rd largest export destination in 2018 (Office of US trade representative).In 2018, bilateral trade of services totaled about ($5 billion) which was approximately a quarter of bilateral goods traded globally (Congressional Research Service, 2020).Turkey services exports were $1.8 billion and imports were $3.1 billion resulting in a trade deficit of over $1 billion (Congressional Research Service, 2020).Travel for education or/and business transport, and business services were top traded services between US and Turkey.

According to the United States trade representative, the top export goods categories (2-digit HS) in 2018 were: machinery ($1.2 billion), vehicles ($1.1 billion), carpets and textile coverings ($591 million), iron and steel ($559 million), and special other (returns) ($535 million). On the other hand, Agricultural export to US from Turkey totaled $1.0 billion at the same year in 2018. Top categories were: processed fruit and vegetables ($191M), tobacco ($173M), snack foods ($121M), while vegetable oils and fruit and vegetable juices totaled $116M and

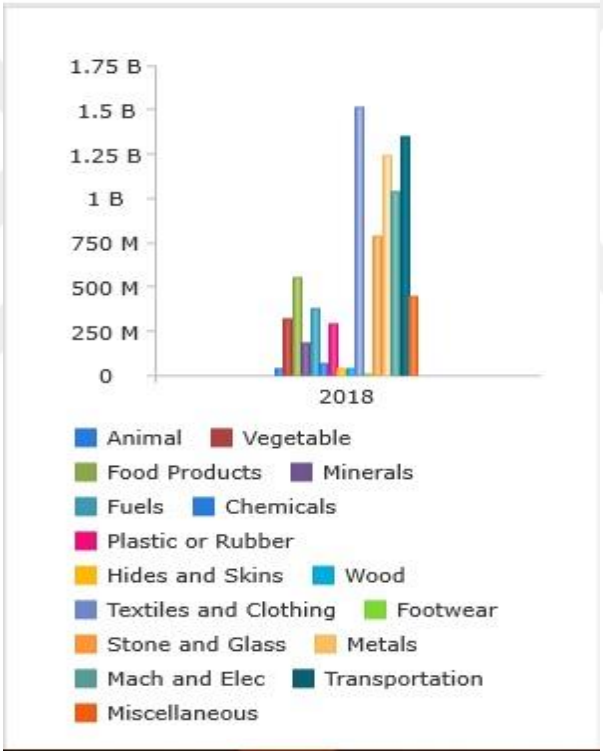


Figure 4. 8 Products Exports by Sector

Source: WITS data

$89M respectively (United States trade representative). Textiles and clothing was the number one product imported by US imported from Turkey. A $ $1.51 billion worth of textiles and clothing was exported to US in 2018. This accounted 18.2% of Turkey's overall export in that sector (WITS data).

Although the total export of Turkey increase by 2% in 2019, however, according to ITKIB export data, Turkish export of textile and raw materials decreased by 5.5% percent in the same year compared to the previous year and decreased to $9.9 billion from $10.4 billion (Yoleri, 2020). Of $1.51B of textile and clothing exported in 2018 by Turkey, carpets and other textile floor coverings accounted $36.2% or 571M of (OEC data).This was followed by Textiles and made up articles by 15.6% or $245M, while apparel and clothing accessories exported were 13% or $206M (OEC data).

Transportation was the second largest products exported by the Turkey to US. A total of $1.3 billion of transportation equipments were exported to US in 2018. In transportation, cars were the made up 26.3% or $363M followed by vehicle parts by 20.1% or $278M, while aircraft parts and delivery trucks export were 18.1% and 15.4% respectively (OEC data).Export of metals (iron and steel) and machines (Nuclear reactors, boilers) were also totaled $ $1.27B and $ $1.12B respectively (OEC data).

4.2.2 Turkish imports from US

U.S is Turkey's fourth largest importer and United State's 28th export market in 2018 (United States trade representative). $ $10 billion worth of goods was imported by Turkey from US in 2019 (US census Bureau data). This number was 2% higher compared the previous year. Turkey imported $10.2 billion in goods from US (led by civilian aircraft, engines, and parts; waste and scrap; cotton; coal; and petroleum refinery products). The top exported products in 2018 were: civilian aircraft ($2.1 billion), mineral fuels ($1.2 billion), iron and steel ($1.1 billion), machines ($753 million), and cotton ($685 million) (United States trade representative). On the other side, Turkey's total imports of agricultural products from US totaled $1.4 billion in 2018. On top of this sector: cotton ($682 million), tree nuts ($279 million), distillers grains ($191 million), soybeans ($79 million), and poultry meat & prods ($43 million) (United States trade representative).

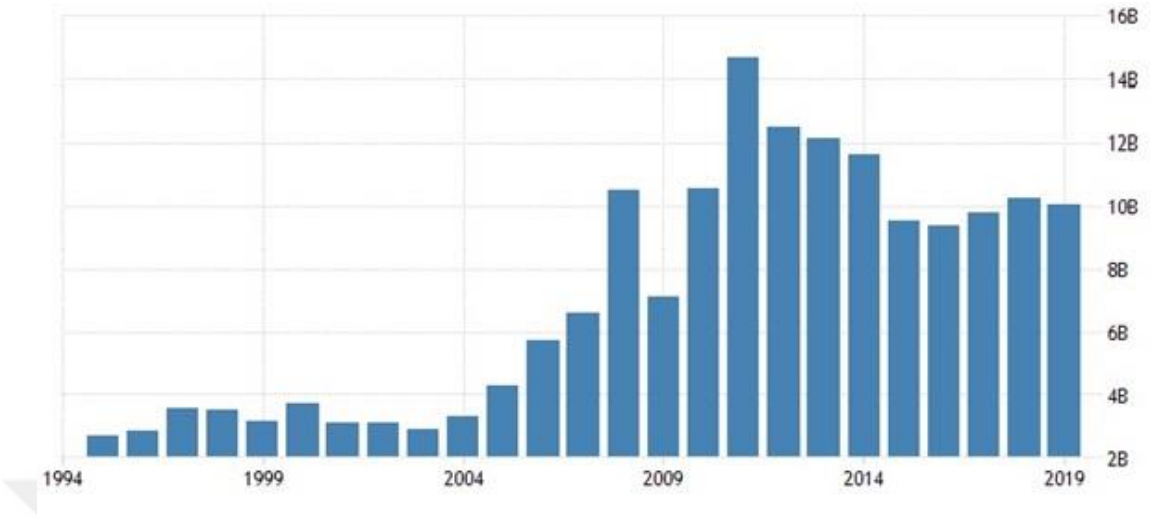


Figure 4.9 Turkey Imports from US

Source: WITS data

As illustrated from in figure 4.12, Turkey imported from US during year 2019 was $ $10.04 billion according to the UN COMTRADE database on global trade (COMTRADE). Turkish import from United States reached a record high of about $ $15B in 2011 due to the unprecedented rise in oil price to $111.26 per barrel marking the first time global oil benchmark reached over $100 (eia, 2012).

The number one sector imported by Turkey from US was machine and electronics (air craft) with total of $ $2.65 billion in 2019 which is 10.4% more compared to the previous year. This accounted for 5.72% or of total Turkey's machine and electronics imported in 2018 (WITS).According to U.S Census Bureau statistics, between the 2013-2014 periods, Turkish exports into the United States have grown by 10 percent, while US exports to Turkey have declined by approximately 3.5 percent. In terms of FDI, the 2014 report, of "EY's Attractiveness Survey Europe 2014: Back in the Game," stresses that although Turkey did not appear in the top 15 FDI destinations in Europe prior to the 2008 economic crisis, the country saw a significant increase in FDI projects, by 129 percent, accompanied by a 162 percent increase in job creation between 2009 and 2013.

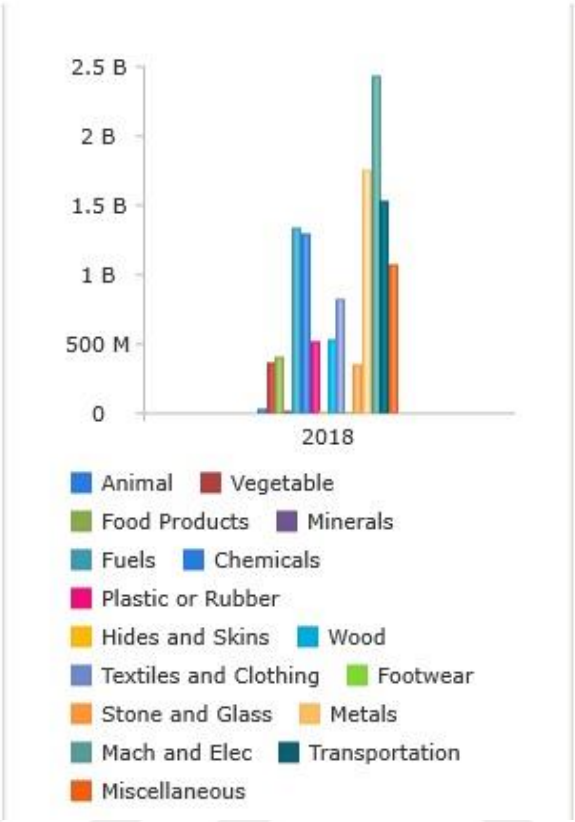


Figure 4.10 Product Imports by Turkey from United States 2018

Source: WITS Data

From 2003 until now, FDI in Turkey reached $152.7 billion. During the 1984-2002 periods, this number was only at $14.6 billion levels. In the subject EY report, Turkey ranked the 10th most attractive destination for FDI in Europe in the year 2014, with United States and Germany remaining the largest investors in Turkey, accounting for 24 percent and 16 percent respectively.

According to the figure 4.3, the Turkish export to China from 2010 to 2018 increased by about $0.7bn from $2.3bn to $3bn; while at the same period the imports grew approximately about $4bn. Starting from 1975 after the Turkey and China signed the trade agreement, except year of 1993 and 1994, Turkey incurred deficit in trade balance against China. According to the Turkey's Foreign Ministry data, the average of Turkey's trade deficit against China from 2013-2019 was $26.0bn. The causes of this trade deficit revolves around three major aspects of which two of them are general and related to the

overall Turkey's trade deficit while one is particular to China. One, dependency on imported energy due to the lack of locally adequate energy supply as there are not enough oil and gas reserves, Turkey imports an estimate of $60bn worth of energy annually (Orhan,&Nergiz, 2012). Two, the low saving rates of the Turkey's population has also negatively contributed to Turkey's trade deficit (Orhan &Nergiz, 2012). The third cause of the Turkey's trade deficit against China is the nature of the products which it exports to China versus what it imports from. Turkey export to China are mainly raw materials like Marble and travertine, chromium, copper, lead, iron, natural borate ores, boric oxide, boric acid which has which has a low profit margin per product compared high end and intermediate products like machines and electronics, and chemicals, that it imports from China.

On the other hand, Turkey exports to US from 2010-2018 increased from $4.7bn to $8.2bn respectively with a record high of $8.5bn in 2017. Unlike China, products Turkey exports to US are diversified ranging from low end products like vegetables, food products, metals to high ends like machines and electronics, chemicals, and transportation (airplane parts).

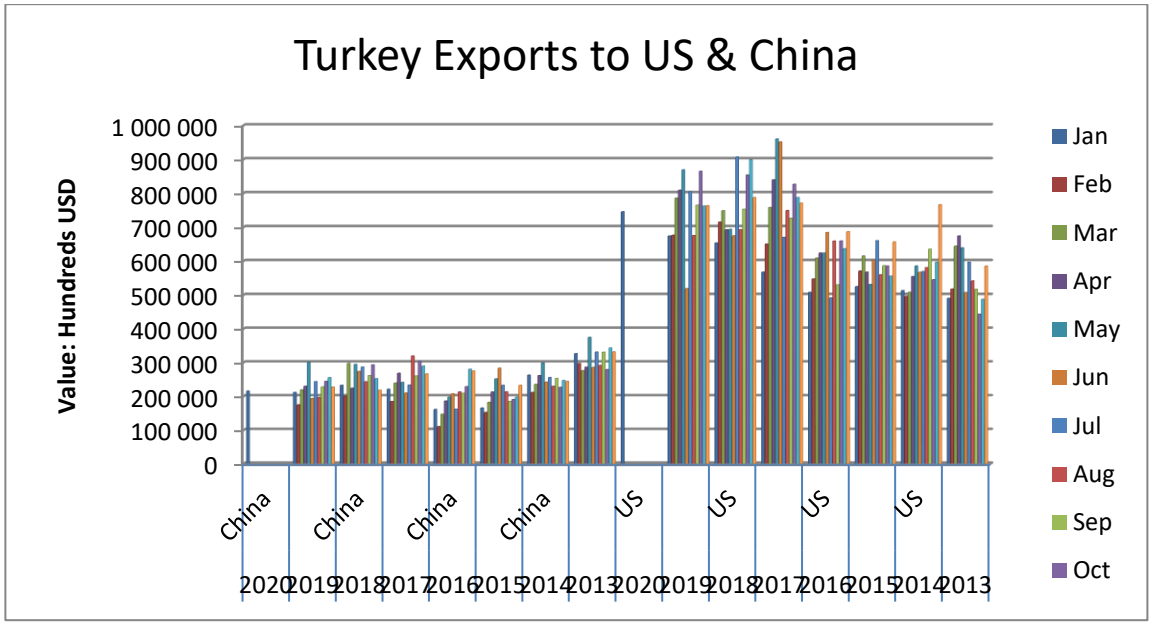


Figure 4. 11 Turkey exports to US vs China

Source: WITS data

As the figure 4.11 shows, Turkey's exports more goods and products to US than China. In contrary, Turkey imports more goods from China than US which means it has a greater trade deficit with China. The ongoing US-China trade war presents a huge opportunity for Turkey to take advantage and increase its export to both US and China and try to fill the gap created by the tariffs imposed by US and China on each other's goods.

CHAPTER V

EFFECTED SECTORS OF THE SINO- US TRADE WAR

Although there were thousands of goods and products affected by the US-China tariff and retaliatory tariffs on each other's goods, however, for this study, only four of the affected sectors two from each (China and US) was selected. This selection was based on Turkey's ability of producing those particular goods and products and its capabilities to be an alternative substitute to both US and China. The four sectors were chosen based on the lists of Chinese exports to US under the 301 section, targeted by the US tariffs as well as the US products covered under the Chinese retaliatory tariffs

After the election of Donald Trump as a president, the US and Chinese governmetns had engaged a tit for tat trade war after Trump adminstrations started imposing tariff on good imported from. China. In 2018, the US Trade Representative under the Section 301 of the Trade act has determined that the policies and practices of the Chinese towards the technology transfer, intellectual property, and innovation covered in the investigation are unreasonable and discriminatory against the US commerce(USTR, 2018). Section 301 Trade Act is a key enforcement tool and statutory principle that provides the United States the authority under which it can impose trade sanctions on foreign countries which violate trade agreements or undergo discriminatory unfair practices against US goods (International Trade Administration 2018).

> "the Trade Representative shall take action authorized in subsection (c), subject to the specific direction, if any, of the President regarding any such action, and shall take all other appropriate and feasible action within the power of the President that the President may direct the Trade Representative to take under this subsection, to enforce such rights or to obtain the elimination of such act, policy, or practice" (Trade Act of 1974. chapter 12. subsection 3).

Under the instruction of president Trump, USTR initiated and investigation against Chinese practices on August, 2017 while simultaneously requesting Chinese government

for consultation on the matter to which China's Minister of Commerce responded by opposing the starting ofthe Section 301 investigation (Executive Office of the President of the US, 2018).The USTR investigation found that:

> "1) China uses joint venture requirements, foreign investment restrictions, and administrative review and licensing processes to require or pressure technology transfer from US companies. 2) China deprives US companies of the ability to set market-based terms in licensing and other technology-related negotiations. 3) China directs and unfairly facilitates the systematic investment in, and acquisition of, US companies and assets to generate large-scale technology transfer.4) China conducts and supports cyber intrusions into US commercial computer networks to gain unauthorized access to commercially-valuable business information" (Office of USTR press release, 2018).

In mid-2018, the US started imposing tariffs on goods from China as means of punishment for China's unfair and discriminatory trade practices which according to the experts and economists conducting the USTR investigation caused a damage of $50 billion in US economy based on the three-year annual average (Office of USTR 2018). China on the other hand responded by imposing retaliatory tariffs on goods imported from US and there a several rounds of retaliatory tariffs between the two sides started.

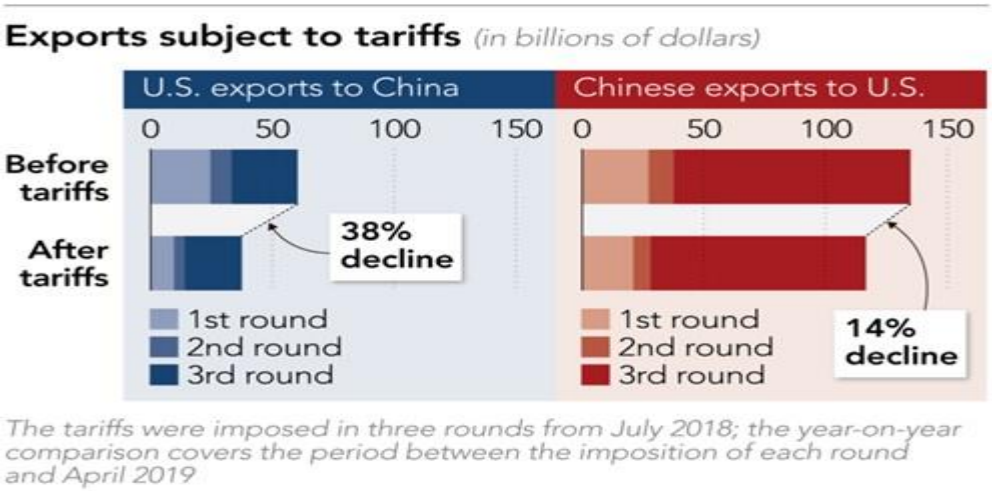


Figure 5. 1. Exports subjected to tariffs

Source: US International Trade Commission, International Trade Center and Chinese customs

In the early summer 2018, US raised 25% tariff on about $ 50 billion worth of Chinese goods to which China retaliated by imposing 25% tariff on $ $50 billion worth of US goods. The matters escalated further in September 2018 after the US initiated an additional tariff of 10% on $200 billion worth of Chinese imports, to which China retaliated by imposing tariffs on imports from the US worth an additional$60 billion (UNCTAD, 2019). In June 2019, Washington further increased duties on $200 billion worth of Chinese products and to which Beijing responded by increasing the tariffs further to 25% on $ 60 billion worth of goods. In August 2019, Trump announced that planned US 15% tariffs on a large subset of the remaining $300 billion worth of imports from China will either be delayed or removed; and from there what is called the Sino-US trade war started.

5.1 Trade war affects on US

May be its not that easy after all. The US- China trade war has been going on more than two years and so far no there is no clear winner up to now but a spiral tit-for-tat trade war which left both countries' economies as well as the global in pain. After imposing 25% tariff on Chinese goods worth of about $ 300 billion, Trump told the US consumers not to worry and that the US tariffs will be largely paid by Chinese. (Brinkley, 2019). However this was not the case. According to the recent survey of BizBuySell, the tariffs imposed by Chinese have caused the small businesses across the U.S to increase the cost of doing business by more than one third due to the unintended financial consequences as a result of the supply chain disruption. (Davis, 2019).

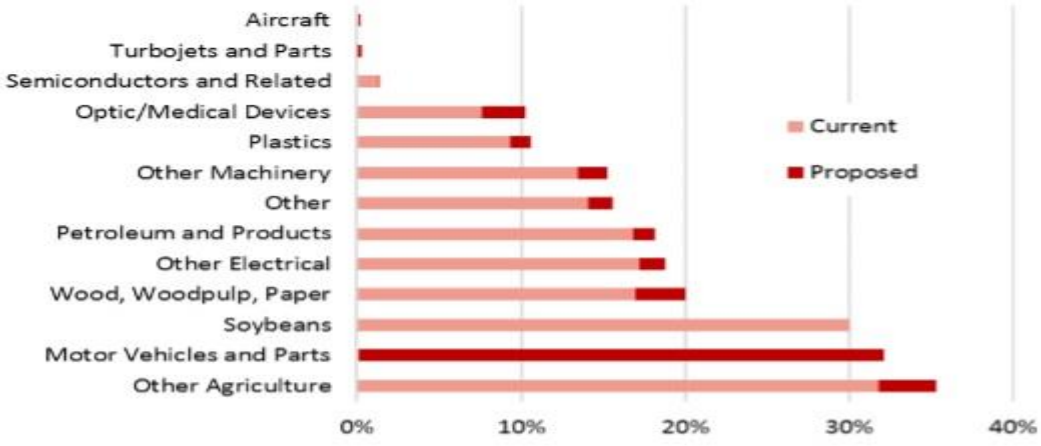


Figure 5. 2. The average increase on Chinese imports from the United States bycatergory (trade-weighted by value of import category)

Source: Congressional Research Service (2019)

United States agriculture products have been hit the hardest by Chinese retaliatory tariffs. Soybeans are currently subject to an increased tariff of 30% under the retaliation to both the US Section 232 and Section 301 actions, while other agricultural products are subject to an average tariff increase of 32%, which will grow to 35% if China implements all the proposed tariffs Congressional Research Service (2019).

The Trade War had also a huge negative impact on American exports especially to those who were dependent on Chinese imports as part of their production process because of the tariffs increase, making them unfavourable and less competitive and thus making it difficult to sell in foreign nations. As prices for American goods increase, company's profits begin to decrease (Wharton University of Pennsylvania, 2020).

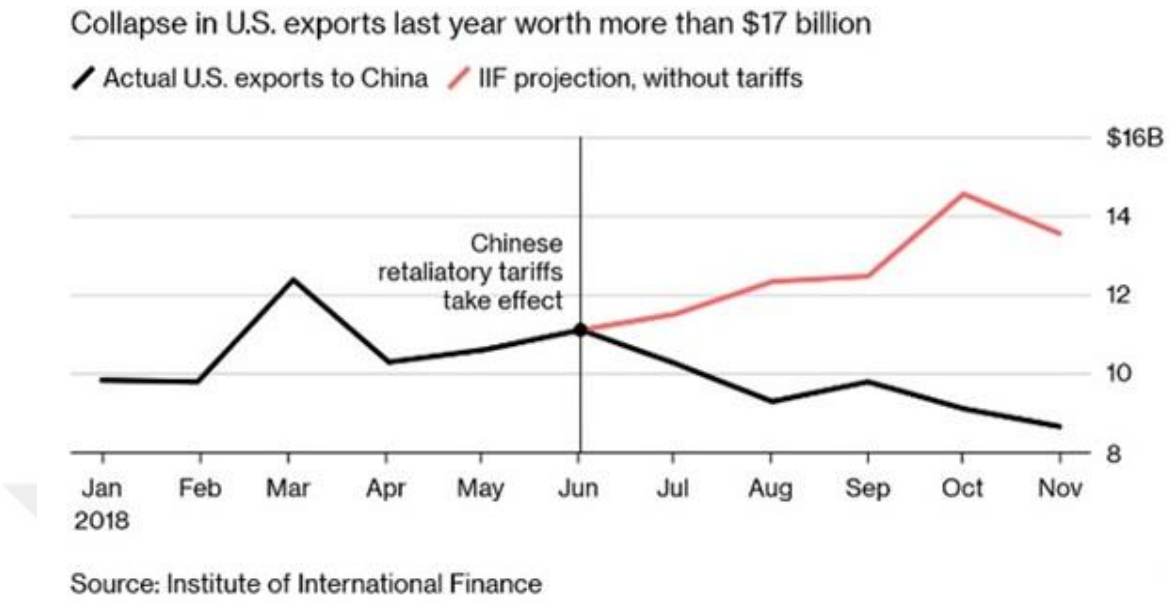


Figure 5. 3 US exports to China with tariffs vs. without

According to Bloomberg, the Chinese retaliation against Trump's tariffs are affecting US exporters more than their Chinese counterparts and costing the US approximately about $40 billion a year in lost exports, according to a new study that highlights the growing costs to the US economy of the trade war against China (Caixing global, 2019). Below are US sectors which are mostly affected by the US-China trade war.

5.1.1 Food and Agriculture industry

Food and agriculture are among the profoundly affected US sectors, which were targeted by the Chinese tariffs. In 2018 China was the fourth-largest agricultural export market for the US With $9.3 billion worth of agricultural products (MyWallSt, 2019). Agricultural products imported by China from the US vary from cotton, hide, pork, and coarse grains, while soybeans are one of the largest Chinese imports from the US. In 2018, the country purchased $3.1 billion worth of soybeans from the US. That same year, Chinese officials placed a 25% toll on the product (MyWallSt, 2019).

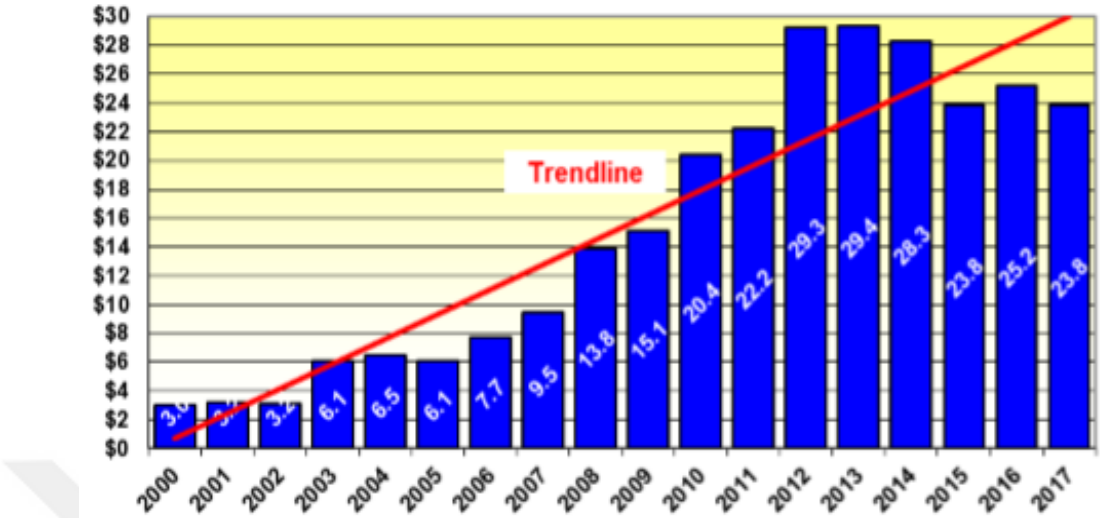


Figure 5. 4 US Agricultural Export to China 2000-2017

Source: USDA-FAS

China (including mainland, Hong Kong, and Macau) was the largest importer of the US agricultural products in 2017. US agricultural export to China reached a recordbillion, or over 17 percent of the total US agricultural exports in that year (Su, 2018). From 2000 to 2017, US agricultural exports to China increase by 700% (Su, 2018).

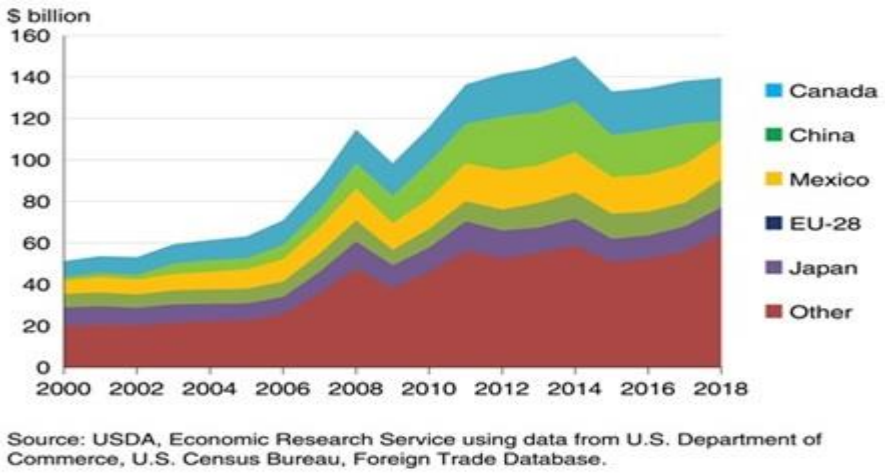


Figure 5. 5 Top five markets for US agricultural exports, 2000-2018

However in 2018, the US agricultural export to China decreased to only $9.3 billion; this represented 60.9% less compared to 2017 and 69.4% less compared to 2014. This

downfall in US exports to China was resulted by trade disputes between the US and China which led to a steep decline in oilseed exports among other commodities (USDA, 2019).

In 2019 the US agricultural sector had record levels of debt and the highest number of bankruptcies since 2011. According to the United States Department of Agriculture (USDA), the projected farm debt in 2019 would be $416 billion with $257 billion in real estate debt and $159 billion in non-real estate debt (Making Sense, 2020). The USDA also projected that solvency measures which reflect the ability to satisfy debt obligations to decrease in 2019 and be at its lowest levels since 2009. Also, the filing of 580 Chapter 12 farm bankruptcies in the year 2019 was 24% higher compared to the previous year and was at the highest annual level since 2011. (Chinn, &Plumley, 2020).

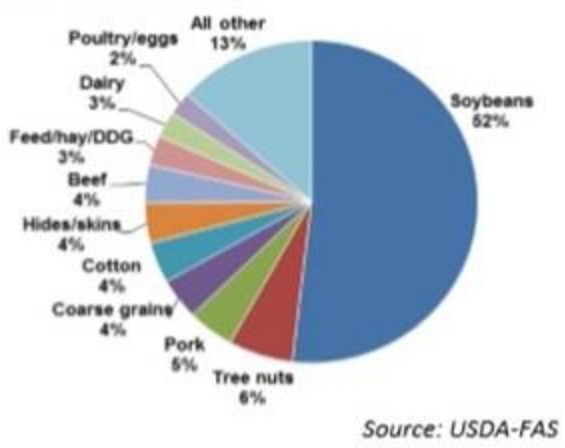


Figure 5.6.US Exports to China (market value share)

Although the US agricultural sector was damaged by the trade war as a whole, however some sub sectors were damaged more than the other and among these was soybean farmers. American soybean farmers were hit hard by the Chinese imposed tariffs. US is one of the world's largest soybean exporters and China is US's biggest market. About 60% of US soybean is exported to China.

China is the world's largest consumer of soybeans with an imports a yearly average over 88 million tons (Hao, 2017).The predominant Chinese imports of soybeans come from the US and Brazil. In July 2018, China imposed a 25% punitive tax on soybeans imports

from the US resulting in a decrease in the overall quantity of imported soybeans by half (Hao, 2017).The increase in tariffs for soybeans has presented unique challenges for the US and China with both markets seeing significant challenges and risks (Daniel 2019).

5.1.2 Automotive Sector

According to the U.S International Trade Administration, in 2017, only 12% of US vehicle and motor parts were imported from China (Biz Analysis, 2019). At the first glance, that figure does not looks that import, but China is the second largest US market share owner after Mexico which owns 25 percent(Biz Analysis, 2019).

Being the world's biggest population and with their economy growing at unprecedented rates, Chinese vehicle market is large and still growing fast. The imposed Chinese tariffs on US vehicles and motors will make the US automotive exports less competitive in the Chinese market thus, leading the other car manufacturing countries to increasing their market share. This will exacerbate the already suffering US car industries as the global trend of cars sales is slowing down (Biz Analysis, 2019).

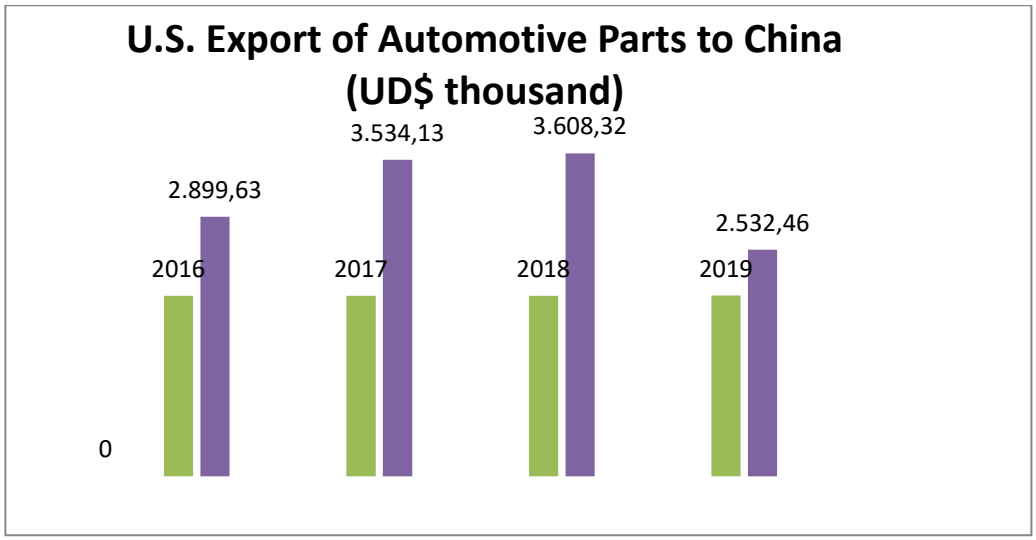


Figure 5. 7 US Export Automotive parts to China (by1000$)

Source: Based on United States Department of Commerce Data

The impact of the ongoing US - China trade war on American automotive export becomes clearer after the release most recent US Census Bureau data. In 2019, the US export of automotive parts to China dropped 29.81% from $3.6 billion to $2.5 billion.

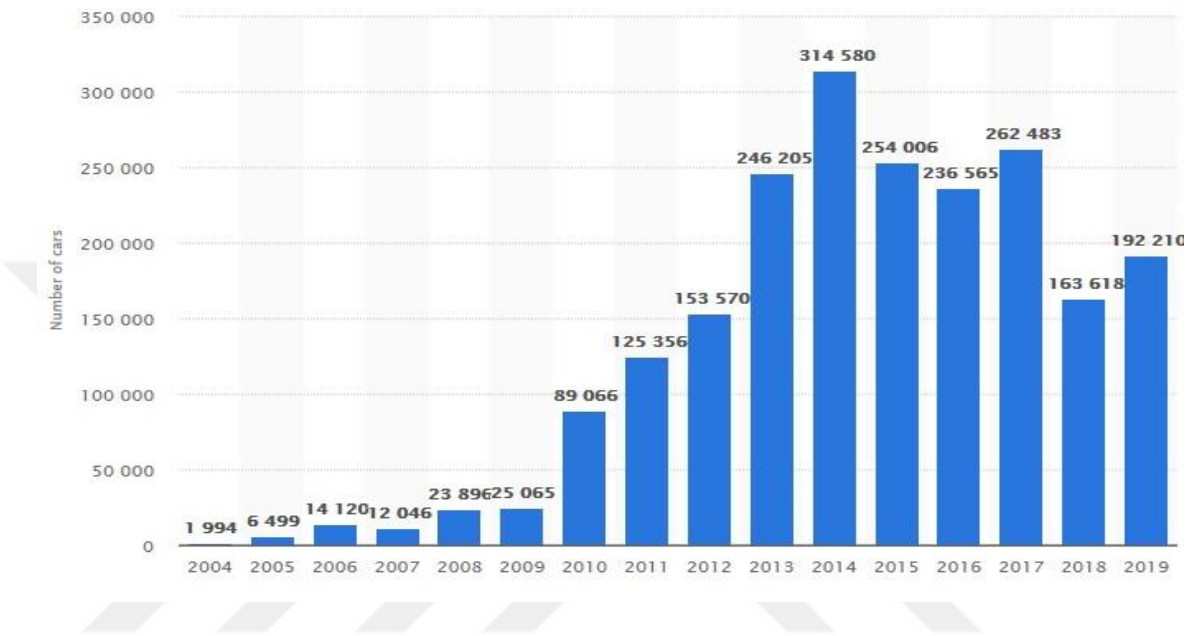


Figure 5. 8 Number of new passenger vehicles and light trucks exported from the United States to China from 2004 to 2019

Source: Statista

After the US- China trade war began, data from the China Association of Automobile Manufacturers showed that the share of U.S vehicles in the Chinese market has dropped from 12.30 percent from 2017 to 9.58 percent in May 2019, while at the same time the market share of Japanese vehicles and German vehicles has grown by 4.26 percentages and 3.66 percentage-point rise respectively (Biz Analysis, 2019).In addition to that, the US exports value of vehicles and parts industry to China has dropped 33.3% in between January and September 2019 compared to the same period of 2017, a decrease of about $3.2 billion(Biz Analysis, 2019). In the course of one month between September and October in 2019, the number of which were laid off US motor vehicles and parts manufacturing employees reached 41,600.

5.2 Trade war effects on China

The ongoing US-China trade war has resulted in a steep decrease in bilateral trade, higher prices for consumers and trade diversion effects as third parties benefited by increasing their exports to the countries which are directly involved in the trade war (UNCTAD, 2919). After Trump Administration imposed 25% percent on Chinese imports the export to United States fell by 6.5% while imports fell by 19.1% (Wllace, 2019). The ongoing trade war between US and China and the tariffs and retaliatory tariffs imposed towards each other's exports createda state of uncertainty on US and other countries investments in China, thus leading many American and western companies to move out of China and to relocate elsewhere especially into Southeast Asia to escape from the tariff (Shao, 2019).

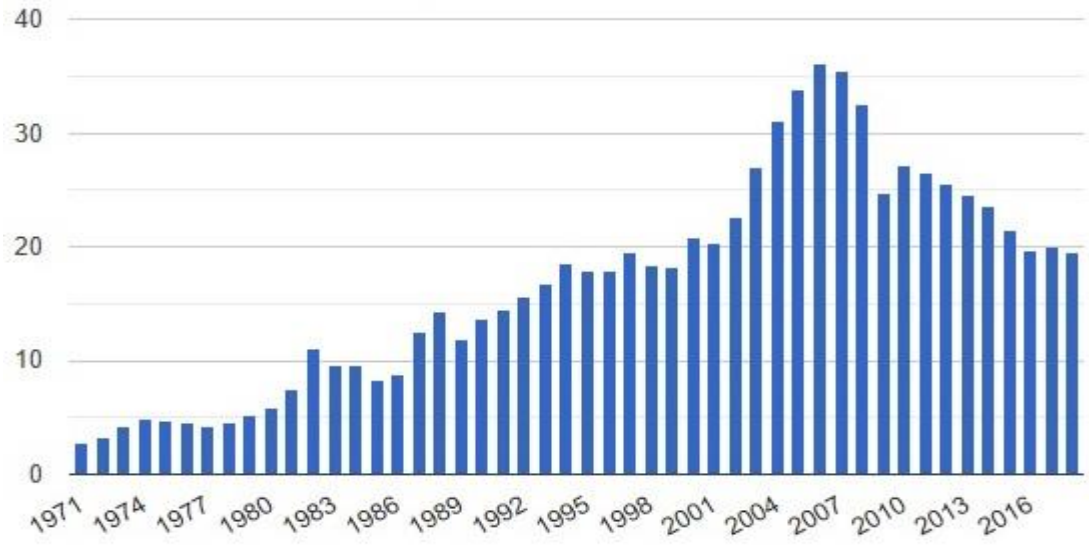


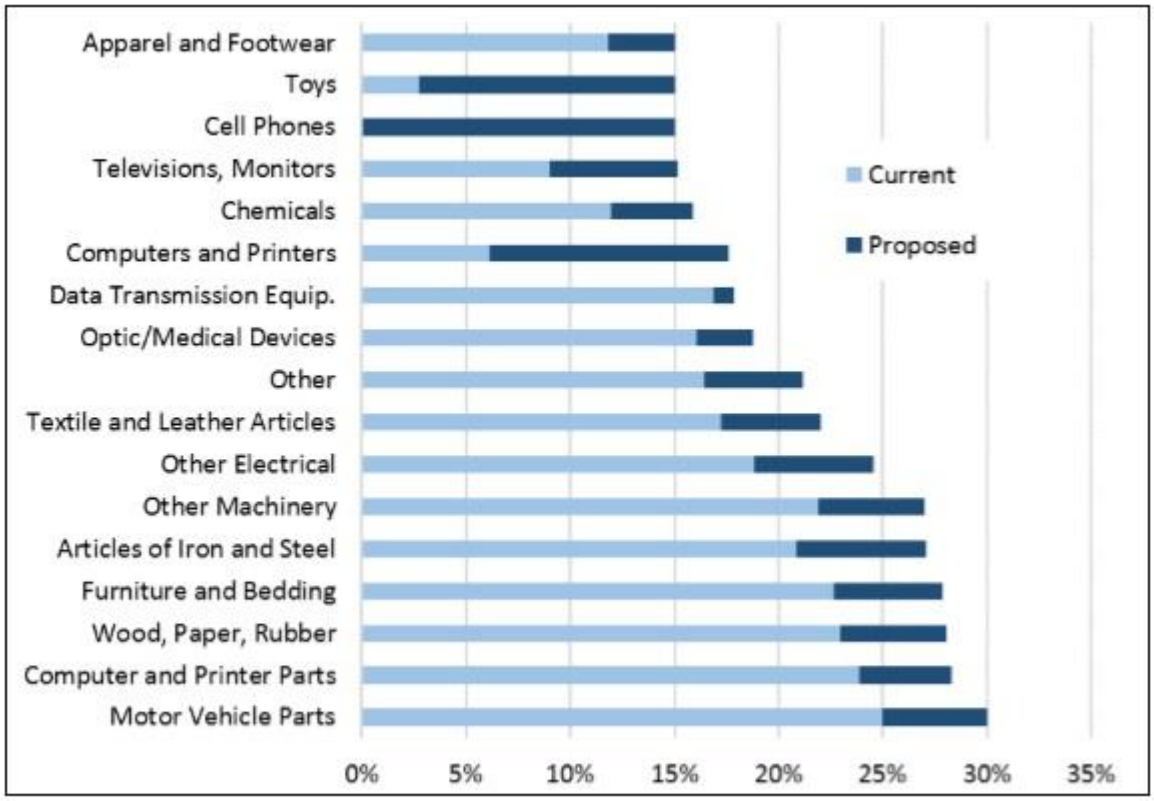
Figure 5. 9 China-Exports, percent of GDP

Source: Global Economy

China is the world's number exporter with $2.5 trillion in 2019. As an export driven economy, Chinas GDP growth greatly depends on exports. For the last two decades, the export percentage of China's overall GDP averaged 27%.

In contrast, United States exports were valued at $ 1.64 trillion in 2019 (statista, 2019).This number only represents 7.65% of US GDP in 2019. This means decrease in Chinese exports will result in a decrease in GDP which will then cause the economic growth to fall.

The below picture shows some of the affected Chinese sectors by the trade war:



Source: CRS. U.S. import data from Census Bureau via Global Trade Atlas IHS Markit. Tariff data based on U.S. tariff announcements.

Figure 5. 10 Impacted Sectors by the Trade war

5.2.1 Motor Vehicle Parts

According to the UN's Comtrade database, China is one of the world's largest suppliers of car parts, motor vehicle parts and accessories worth $34.8 billion in 2018, (Richter F, 2020). In 2019, China export of automotive parts totaled UD$32.6 billion; this made China the third largest automotive parts export in the world after Germany $ 61.8 billion

and United States UD$43 billion (11%) (Workman, 2020). In May 2019, the US government imposed additional 10% duties on automotive parts, engines and chassis imported from China to 25%, (Nuthall, 2019). To avoid tariffs and escape the rising trade tensions, US car companies in China moved their manufacturing footprints from China to other countries such as Mexico and India where there were already an American production plants and supply chain networks.

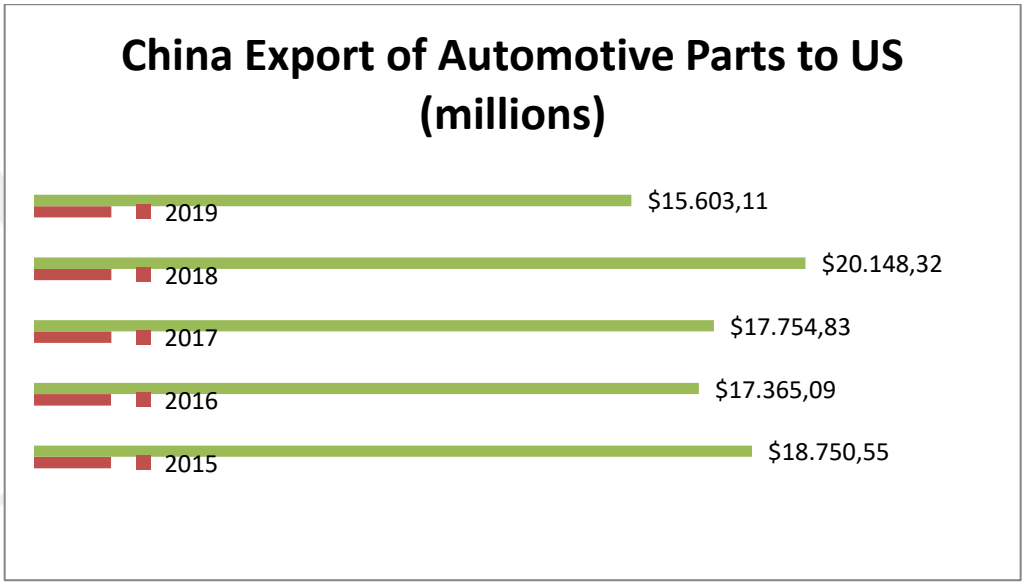


Figure 5. 11 China Export of Automotive Parts to US (millions)

Source: Based on United States Department of Commerce, Bureau of the Census, data

The Chinese automotive parts industry alongside the vehicle manufacturing industry has grown largely since 2007. The driving force of this growth have been domestic industry demand, together with the Chinese government policy, and strengthened integration into global supply chains (Coffin, 2019). In 2017, China became United States second biggest source of supplier of auto parts after it surpassed Canada (Coffin, 2019). After the Trump administration imposed tariffs on goods imported from China, export of auto parts fell 22.4% ($ 4.54 billion) in 2019 as the above figure shows,

5.2.2 Apparel and foot wear

China was the largest supplier of goods in United States with $539.5 billion in 2018 with an increase $34.0 billion (6.7%) from the previous year (Office of the US Trade Representative, 2019). In May, 2019, United States imposed Section 301 punitive tariffs of 25% on $300 billion worth of Chinese imported goods. The list of 3,805 products under the subheadings of HTSUS included all apparel, footwear, and manufactured textiles (Barrie, 2019).

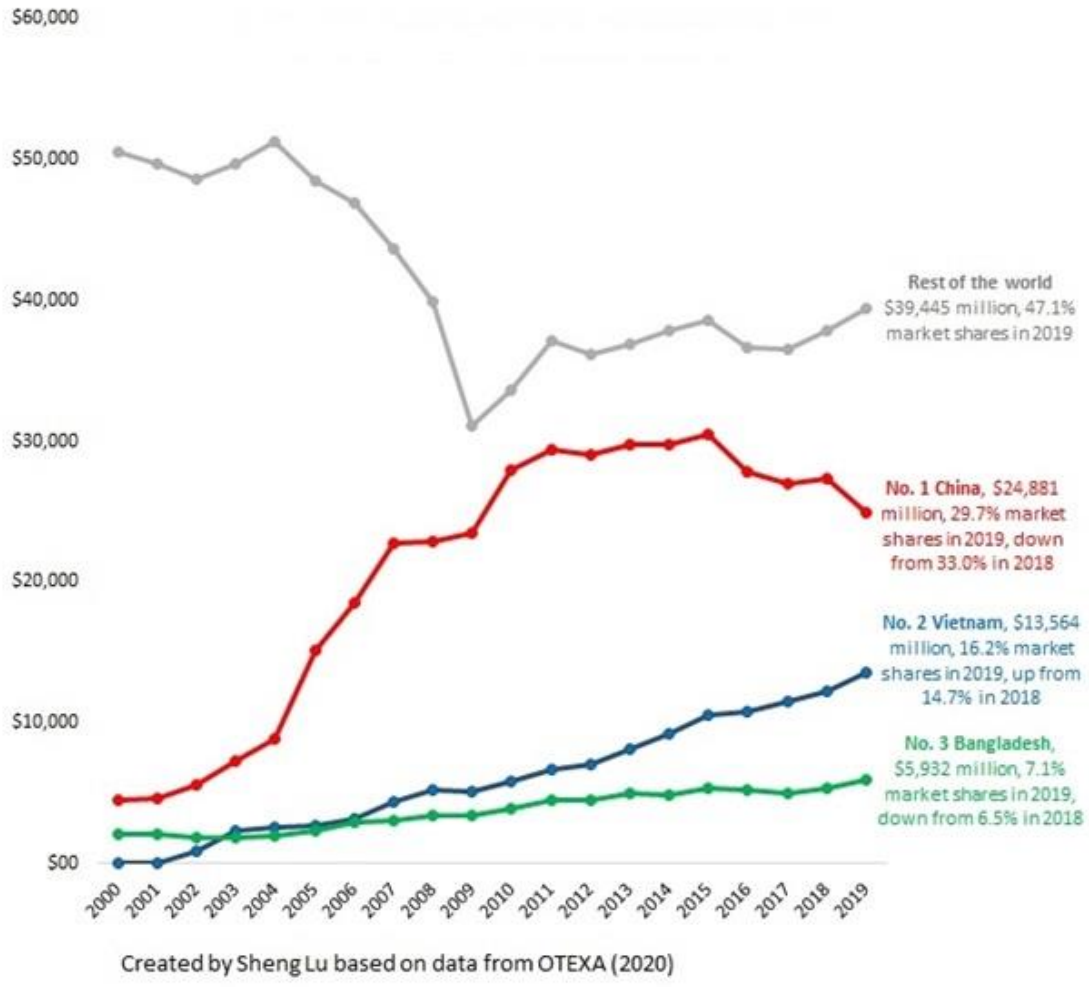


Figure 5. 12 China Export of Automotive Parts to US

United States is an important market of Chinese textile and apparel industries. As the biggest apparel consumption market in the world United States is import of textile and apparel total $ 111.28 billion in 2019. Apparel products accounted for 75.3% of the total US textile and apparel imports, followed by made-up textiles (17.9%), fabrics (5.6%t) and yarns (1.2%) (Sheng, 2020).

In 2019, US imported apparel from more than 150 countries. The overall the US apparel import market became less concentrated, as the Herfindahl index declined from 0.269 in 2010 to 0.253 in 2019(Sheng, 2020). The US fashion brands and retailers are highly dependent of Chinese apparel and textile imports which made them more susceptible for the increase in tariffs on Chinese products. This led many US fashion and brands to continue to diversify their sourcing bases gradually by reducing the dependence on sourcing from China (Sheng, 2020).

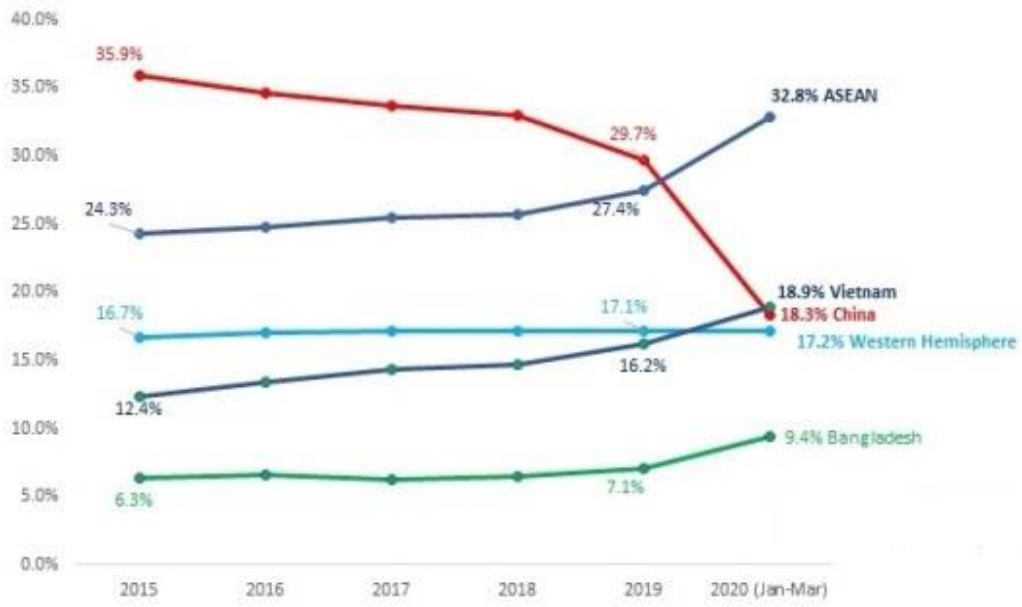


Figure 5. 13. Shares in the US Apparel Imports Market (by value)

Source: OTEXA (2020). Creaste by Dr. Sheng Lu

The US -China trade tension has negatively affected China's textile and apparel exports to the US Notably, except apparel, China's exports of fabrics, yarns, and made-up textile to the US all experienced a constant positive growth between years 2016 and 2018. The impact of the tariff war is real.A study conducted by the U.N estimated the overall, loss

in China's export of textiles and apparel to the US during the first half was estimated at $1.19 billion.

Fabrics

Period	Market growth effect	Commodity structural effect	General competitive effect	Product competitive effect	Residual
2018 vs.2016	72.9%	-31.7%	7.8%	40.4%	10.6%
2018 vs.2017	79.5%	-9.2%	19.1%	7.8%	2.8%
2019 vs. 2018*	13.3%	3.7%	89.8%	-3.1%	-3.7%

*both refer to Jan-Oct

Analyzed by Dr. Sheng Lu based on data collected from OTEXA (2019)

Apparel

Unit: $million USD

Period	Difference in value of trade	Market growth effect	Commodity structural effect	General competitive effect	Product competitive effect	Residual
2018 vs.2016	-$530.9	$764.2	-$65.8	-$1,260.5	-$6.7	$3.5
2018 vs.2017	$361.1	$907.0	$3.6	-$528.2	$2.7	-$24.0
2019 vs. 2018*	-$1,317.8	$613.4	$36.7	-$1,881.9	-$98.3	$12.3

*both refer to Jan-Oct

Apparel

Period	Market growth effect	Commodity structural effect	General competitive effect	Product competitive effect	Residual
2018 vs.2016	-143.9%	12.4%	237.4%	1.3%	-0.7%
2018 vs.2017	251.2%	1.0%	-146.3%	0.7%	-6.7%
2019 vs. 2018*	-46.5%	-2.8%	142.8%	7.5%	-0.9%

*both refer to Jan-Oct

Analyzed by Dr. Sheng Lu based on data collected from OTEXA (2019)

Figure 5.14. Impact of US -China trade on competitiveness of China's textile and apparel

The above figure 5.14 illustrates a study conducted by Dr.Sheng Lu on the effect of US-China trade conflict on the competitiveness of the China's textile and apparel (T&A) exports to the American market based on the data collected from the OTEXA (2019). Using constant market share model (CMS), the study found that: a) China-US trade tensions negatively impacted China's textile and apparel exports to the US (Lu, 2019). This can be seen from figure 5.14, as the market growth of fabric dropped from 72.9%

and 79.2% in the period of 2018-2016 and 2018-2017 respectively to only 13% in 2018-2019. b) The increased US demand on T&A has partially mitigated the effect of the trade war on the Chinese T&A exports of the US (Lu, 2019). Without that market growth, things would be worse for the Chinese T&A sector as the exports to US would have dropped $2.06bn further in 2018 (Lu, 2019).

CHAPTER VI

TURKEY AS AN ALTERNATIVE TO CHINA AND US GOODS

6.1 Effects of Trade Diversion

Trade diversion is an economic term which occurs when imports shift from low-cost countries to higher-cost countries as a result of tariff agreements (Economics help). In an open market economy, countries can freely participate in the trading act characterized by the absence of any barriers such as tariffs, taxes, and subsidies, or any other regulations that interfere with naturally functioning operations (Segal, 2019). Viner's (1950) theory of customs union is the basis of the concepts of trade creation and trade diversion. When a customs union is created, members of the union benefits from the trade creation as the tariffs between the members is removed; however countries outside the union are disproportionately affected as the imposed tariffs increase the price of their products, thus making them less competitive and resulting trade diversion.

The economic costs of tariffs and trade war on the growth of the involving countries have historically been substantial, and the present one is no different (Mukherjee, 2020). The ongoing US -China trade escalation is, without doubt, negatively affecting the world economy. As the trade war escalated and the tit-for-tat tariff soared between the US and China, the importing cost from each other also hiked (Mukherjee, 2020). While higher tariffs potentially undermined the trade between US and China, it created an opportunity for the non involving third countries. The trade diversion created by the US-China levied tariffs on each other's goods and products, resulting in imports to shift away from them to other countries. While the tariffs have resulted in a sharp decline in US imports from

China and the Chinese imports from the US, it created an incentive for the other manufacturing economies, making suppliers in the rest of the world to compete filling that gap and increase their export to US and Chinese. Trade diversion effects of United States imposed tariffs on China, shows that the ongoing trade war has resulted in a steep decline in the bilateral trade, higher prices for consumers and trade diversion effects for countries not involved in the trade war (UNCTAD, 2019).

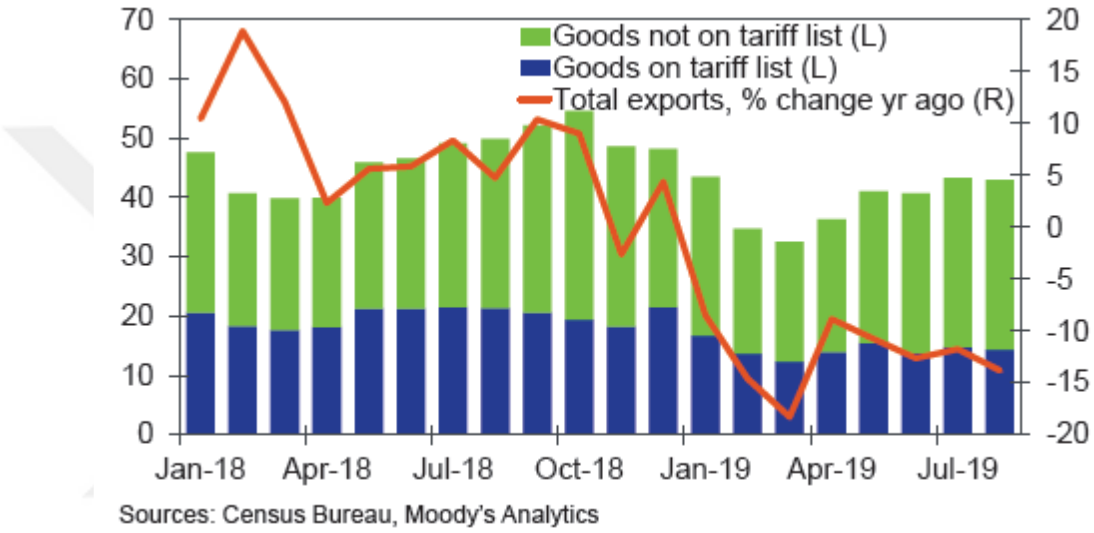


Figure 6. 1 The decline of Chinese Exports to the US

The above figure shows that following the enforcement of the third round of the US tariffs that came into effect on September 8, 2018, China's exports to the US started a downward trend (Mukherjee, 2020).The Chinese composition of the US -bound exports has also changed, as fewer goods on the tariff list were exported since 2018, with China's total share of exports falling from 46% in June 2018 to 33% in August 2019 (Mukherjee, 2020).

The US imports trend has also changed as the trade friction with China started. While the US imports from China decreased by 12.3% from January to August 2019, US total imports declined by 0.03%, imports from other regions such as the Asian, EU and Mexico picked up (Mukherjee, 2020). Trade diversion led the imports from Vietnam and Taiwan to increase as some of the firms who used to operate in China relocated some their production (or at least final assembly) to avoid the US tariffs. However, the imports from countries other than China did not fully offset the decline in imports from China

(Setser, 2020). China's exports of tariffed goods decreased by a sharp 28.2% in 2019 from a year earlier; the US imported more of these goods from other countries such as the EU, Mexico, Taiwan and Vietnam (Mukherjee, 2020).

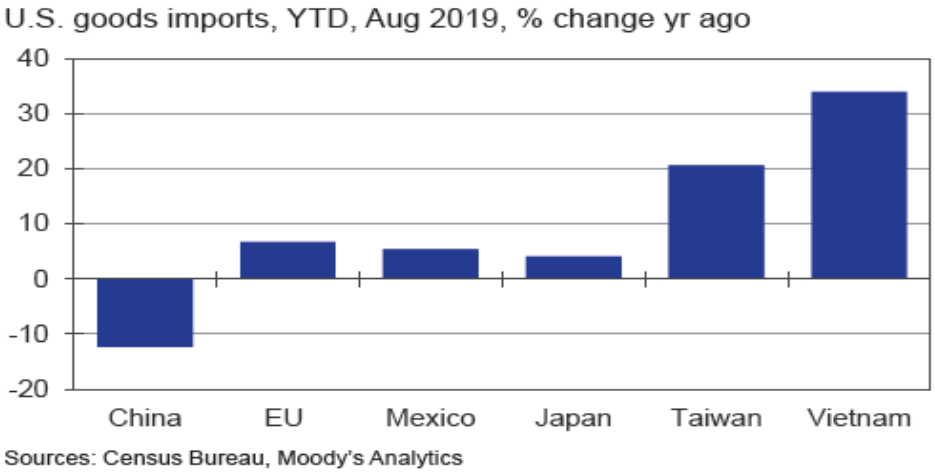


Figure 6.2. Increase of US Imports from Countries other than China

6.2 Turkey as a Substitute for China

6.2.1 Textile and Apparel

Currently, Turkey is among one of the world's top textile and apparel manufacturing countries. Clothing sector is Turkeys' second most successful export product after vehicles, which earned 9.4% of the country's total exports (Akter, &Mahfuz, 2018). Sectors of textile and clothing industry in Turkey has a significant role in world trade with the capacity to meet high standards as it can compete in the manufacturing of high quality and a vast range of products in the international markets. Since the 1980s, the Turkish production and export industry shifted from low value-added commodities to high value-added manufactured items and fashionable goods (Akter, & Mahfuz, 2018). The state of the modern textile and clothing industry in Turkey was the result of the industrialization policies in the sixties and seventies. The 90s was the booming years of the Turkish textile and apparel sector as huge investments on modern machinery park,

and human resources were made. Today, the textiles and clothing industry in Turkey in terms of high quality and wide range of products is the most advanced and outward-oriented industry which can compete with other countries in international markets (igeme.gov, 2008).

According to the Istanbul Apparel Exporters' Association (IHKIB) yearly report, in 2018, Turkey's overall export has increased from 157 billion dollars to 168.1 billion dollars with an increase of 7.1%. The same year, Turkey's apparel export increased by 3.6% and recorded 17.6 billion dollars compared to the previous year (IHKIB, 2018). The export share of apparel in Turkey's total export was 10.5% in 2018; this share was 10.8% in 2017 (IHKIB, 2018).Except for Germany and Iraq, top apparel export markets have witnessed increase rates in between 3.3% to 16.2% in 2018 (IHKIB, 2018).

Leading Markets in Apparel Export
2017-2018-2019 Yearly Changes

Units: 1000 $

	2017	Share %	2018	Share %	2017/18 Change %	2019	Share %	2018/19 Change %
Germany	3.228.022	19,0	3.195.651	18,1	-1,0	3.073.797	17,4	-3,8
Spain	2.090.513	12,3	2.398.964	13,6	14,8	2.318.637	13,1	-3,3
United Kingdom	1.954.245	11,5	2.022.055	11,5	3,5	1.908.866	10,8	-5,6
Netherlands	860.143	5,1	999.076	5,7	16,2	1.125.491	6,4	12,7
France	843.154	5,0	887.625	5,0	5,3	874.283	4,9	-1,5
Iraq	715.056	4,2	666.449	3,8	-6,8	707.199	4,0	6,1
USA	560.719	3,3	599.693	3,4	7,0	647.306	3,7	7,9
Italy	559.345	3,3	577.446	3,3	3,2	574.634	3,2	-0,5
Denmark	392.608	2,3	412.000	2,3	4,9	403.175	2,3	-2,1
Israel	327.075	1,9	357.976	2,0	9,4	393.176	2,2	9,8
Top 10 Countries	**11.530.882**	**67,7**	**12.116.935**	**68,7**	**5,1**	**12.026.563**	**67,9**	**-0,7**
Apparel Export	**17.031.269**	**100**	**17.628.348**	**100**	**3,5**	**17.700.869**	**100**	**0,4**
Share of top 10 Countries %	**67,7**		**68,7**			**67,9**		

Source: Exporters Associations Records

Figure 6. 3 Leading Markets in Apparel Export

The top Turkish apparel export markets are Germany, Spain, and the United Kingdom with a $3.07 billion, $2.32 billion, and $1.91billion respectively. The United State is

Turkey's seventh biggest apparel export market with a $647.3 million with an increase of 7.9% compared to 2018 and 13.3% from 2017.

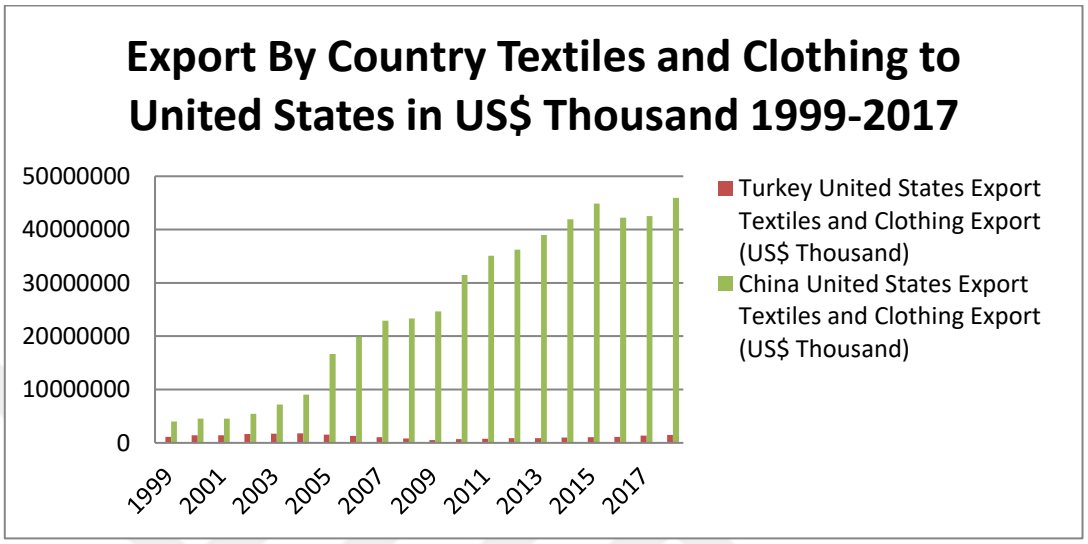


Figure 6. 4 Turkey and China Text & Cloth Export to US in ($1000)

Source: Based on WITS data

According to data from the Department of Commerce's Office of Textiles and Apparel (Otexa), Chinese textile exports to the United States showed a 22% drop in 2019 amid the trade war. China's total share of US apparel as companies started to diversify and relocate their sourcing from China to avoid the tariff.

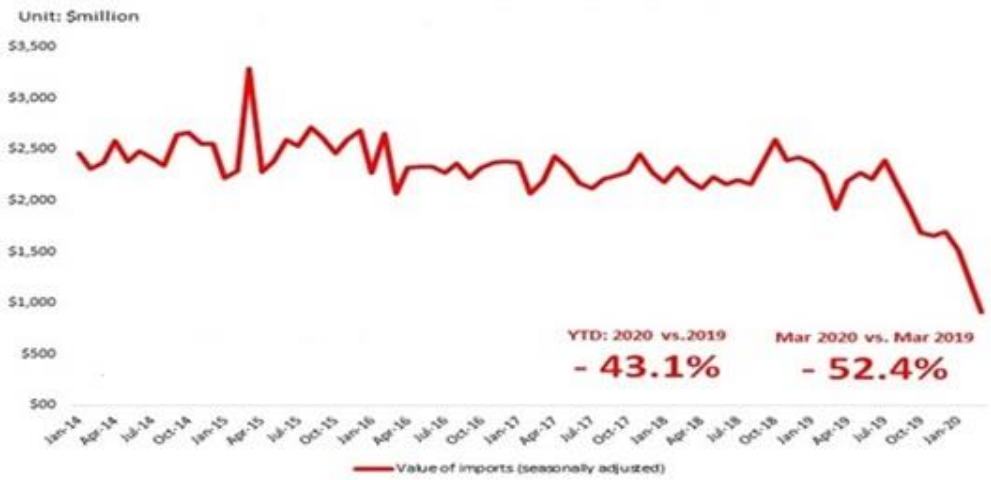


Figure 6. 5 US Apparel Imports from China--by Value

Source: OTEXA (2020). By Dr. Sheng Lu

Soon after the trade war started the Chinese textile and clothing exports to the US started to decline. In March 2020, the Chinese export apparel exports to the US dropped by 52.4% compared to March last year.

China's textile exports to the United States is estimated 18% of the total textile exports, making the US China's largest export market for textiles, valued at around $50 billion (Textile World, 2019). In other words, 38% of the United States exporter of textiles and apparel was imported from China (Textile World, 2019). With the ongoing trade frictions and uncertainties between the US and China, and with a 10% tariff increase on US imports from China, can Turkey be an alternative for the Chinese textile and apparel?

Turkey is the 6th largest clothing supplier in the world (TextileToday, 2018). According to WTO data 2016, Turkish clothing industries accounted 3.39% of the world clothing sector; also the global share of knitted and woven cloths totalled (4.06%) and (2.73%) respectively (TextileToday, 2018). Speaking in the Istanbul Textile and Apparel Exporters Association (IKIB) Trade Minister of Turkey Ruhsar Pekcan said: "Despite the protectionist inclinations of current global trade, the Turkish textile industry has managed to preserve and improve its position in the international market thanks to its strong internal dynamics, innovative branding and design ideas," In addition to that said by Pekcan, Turkish textile sector has the advantage of qualified and skilled labour, accumulation of know-how, advanced sub-industry clothing sector, and flexible service and supply chain due to its geographical position (Daily Sabah, 2020).

The president of the Turkish Clothing Manufacturers (TGSD) Hadi Karasu said: "Turkey is the fifth largest clothing supplier in the world; we took a 3.3 percent share from the $515 billion global clothing market in 2017." He added to that Turkey has a potential and the means to raise its exports ten times higher than its current number.

6.3.2 Automotive, Vehicles and Motor Parts

After the initiation of the US-China trade war in mid-2018, automobile and auto parts industry was one of the most affected industries by the trade war. US and China have

been imposing rounds of tariffs in this sector which lead to an increase in the production cost for the major players in the sector (Rais, 2019)

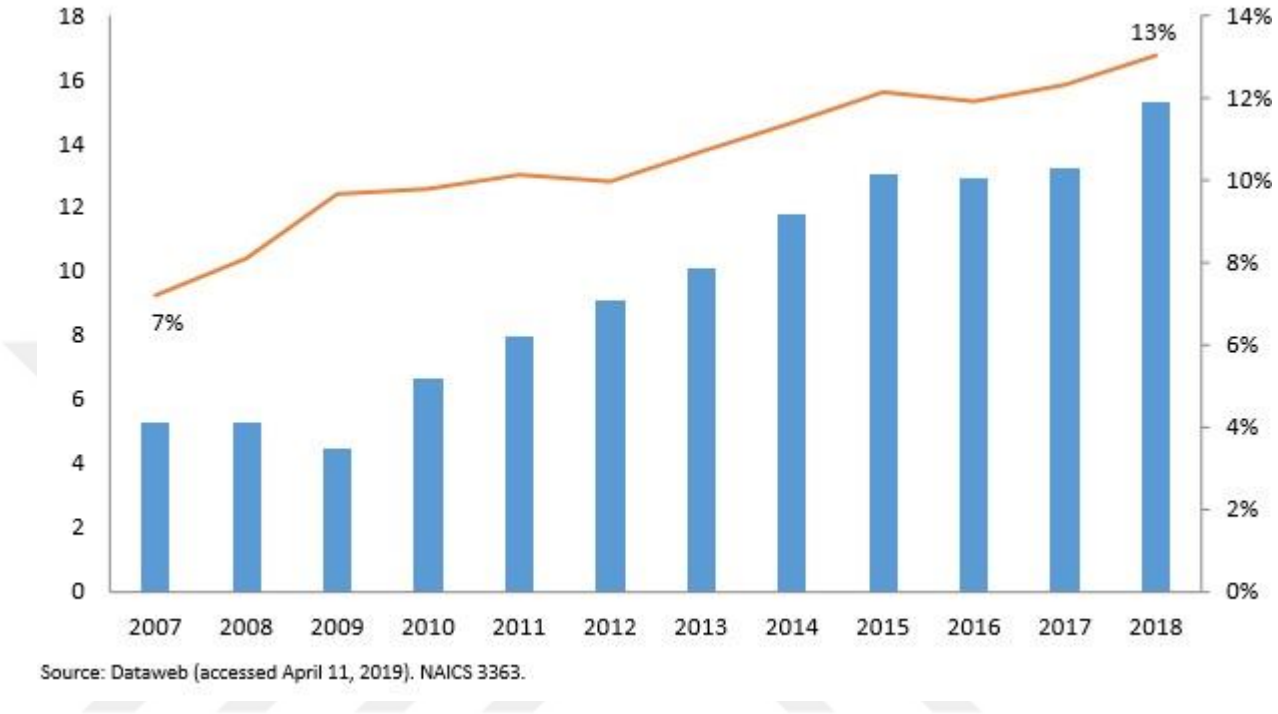


Figure 6.6 US auto parts imports from China 2007–2018, $ billions and share of total

According to the US Commerce Department, China was the second source of US imported auto parts after Mexico, with $20.15 billion in 2018 (Webb, 2019). With 25% tariffs, $ 5.04 billion of Chinese auto exports to the US will be affected. This means the cost of US auto imports from China will be increase and equivalent of the 25% tariff increase. A survey conducted by the American Chamber of Commerce in Shanghai and the American Chamber of Commerce in China showed that the US automakers in China are most affected by these tariffs, as the combined tariffs increased the manufacturing costs by more than 60% and thus reducing their profits (Rais, 2019).

So, can Turkey be an alternative supplier for the Chinese auto parts in the US?

Automotive industry in Turkey has longstanding traditions in the country, and from mostly assembly-based production, it gradually transferred into an industry with R&D design capability and high added value (South-East European Industrial Market, 2019).

The role of the automotive industry in the Turkish economy was slowly but steadily growing. Aside from its potential for creating high added value, the automotive industry was the core component of advancement in the industrialization and technology growth rates over the years, along with the export opportunities it provides which gave it significant weight in the Turkish economy (OIB).

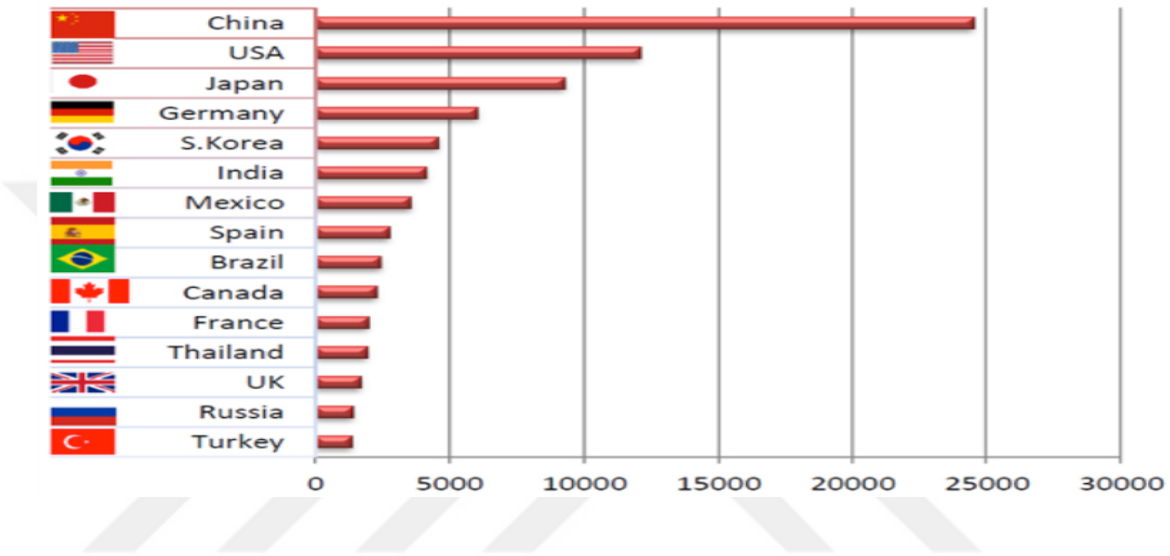


Figure 6. 7 World biggest Automotive Producers

Source: Automotive Meeting

With the 15th biggest automotive producer in the world and the 5th biggest in Europe in 2015, the automotive sector is one of the main driving forces of the manufacturing sector in Turkey while it employs more than 400,000 people (Automotive Meetings, 2015). Turkey accounts for 25% of the overall automotive production in the Central and Eastern Europe.

With the foreign companies partnerships established with Turkish entrepreneurs, the automotive sector has been of key-value to local production input over the years. Currently, Turkey is the largest light commercial vehicle manufacturer in Europe and ranks fourteenth in terms of automotive production globally (South-East European Industrial Market, 2019). According to the Turkish Automotive Industry Agenda study, between 200- and 2018, a total of $ 15 billion was invested in Turkey by the original equipment manufacturers (OEM). These investments contributed to the expansion of the

sector's capabilities and made Turkey become an essential player in the global value chain of OEMs (South-East European Industrial Market, 2019). Turkey's automotive exports to the US have increased by 14% to $631 million in the first seven months of 2019.

According to the automotive sector in Turkey, being a vital supply network that is continuously in progress, nine global and seven domestic automotive industry producers operate in Turkey. The official report showed that in 2018, the produced vehicle in Turkey amounted to 1.55 million units with 85% of these vehicles exported.The export rate of production increased by 7% compared to the previous year's rates, rising to about 1,318 million units in total (South-East European Industrial Market, 2019).

The production of the Turkish automotive industry increased from 436 thousand units in 2000 to 1.69 million in 2017, while the production capacity increased from 800 thousand to 1.91 in the same period.

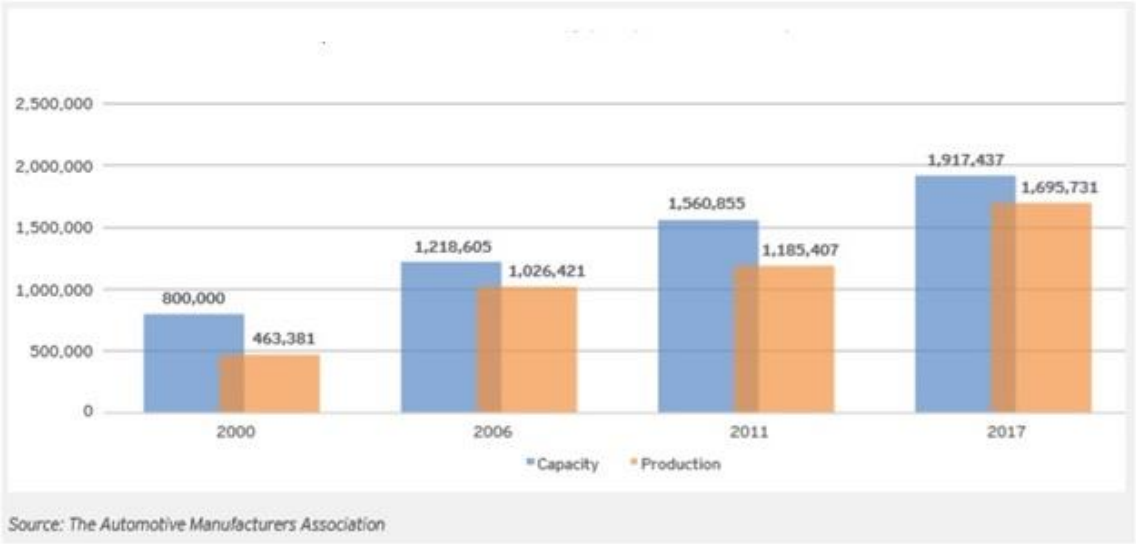


Figure 6. 8 Capacity vs production of Turkish-automotive industry

Turkey becomes a symbol of excellence concerning the production of commercial vehicles. At the end of 2018, Turkey became the number two producer of commercial vehicles (CVs) in Europe (Turkey investment office). In addition to that, the Turkish automotive industry is targeting further to improve its R&D, design, and branding capabilities. In 2019, 184 R&D and design centres for automotive manufacturers and suppliers were operating in Turkey (Turkey investment office).The geographical

location of Turkey, coupled with the highly skilled workforce, could be the secret formula of Turkey's success.

So, considering the above factors, Turkey automotive sector is capable of filling the gap created by the US tariffs and can be a suitable substitute for the automotive parts that the US imported from China.

6.3 Turkey as a Substitute for the US

6.3.1 Agricultural Sector

US agricultural sector has been caught in the middle of the tit-for-tat of the trade wars with China (Chinn,&Plumley, 2020). According to the US International Trade Administration, American agricultural exports to China dropped from $ 15.8 billion in 2017 to $ 5.9 billion in 2018, and exports have continued to fell in 2019 (Chinn, &Plumley, 2020).

United States farm product export to Chin fell more than 60% from 14k million in 2017 to 4.3k million in 2018 as the above picture shows.

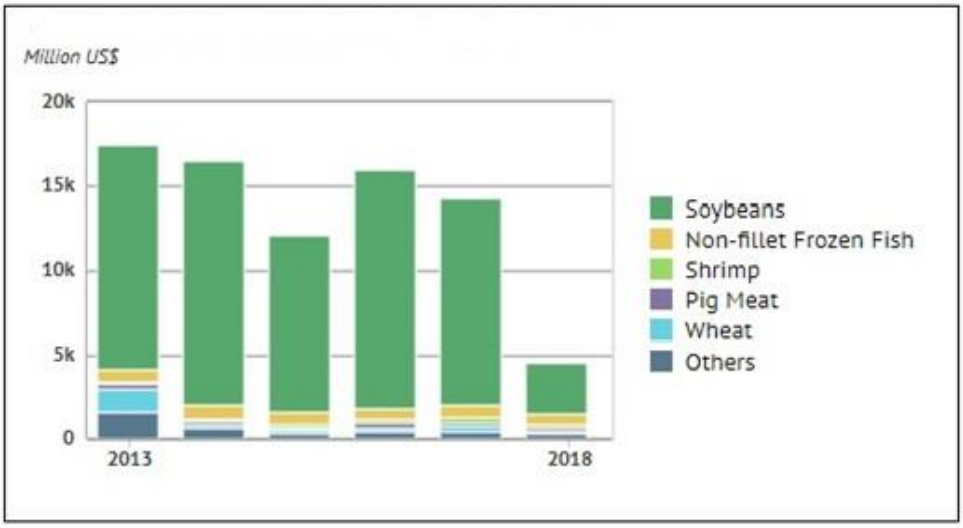


Figure 6. 9 United States: Farm Product Export to China

Source: Knoema data

In 2018, concerns about China's discriminatory policies toward US products and its shady policies relating to intellectual properties,Trump administration imposed several rounds of tariff on goods imported from China. In response to this, China levied retaliatory tariffs of 15% to 25% on the range of imports from the US, including food and agriculture (Congressional Research Service, 2019).

Harmonized System (HS) Chapters (CH.) and Their Descriptions

Chapter	Description	Chapter	Description
CH.1	Live animals	CH. 20	Preparations of vegetables, fruit, and nuts
CH. 2	Meat, edible offals	CH. 21	Miscellaneous edible preparations
CH. 4	Dairy, eggs and honey	CH. 22	Beverages, spirits and vinegar
CH. 5	Other animal products	CH. 23	Residues and waste from the food industries
CH. 6	Live trees, plants, planting material, flowers	CH. 24	Tobacco and manufactured tobacco substitutes
CH. 7	Vegetables, roots and tubers	CH. 29*	Mannitol and sorbitol
CH. 8	Fruit and tree nuts	CH. 33*	Essential oils
CH. 9	Coffee, tea, maté and spices	CH. 35*	Albuminoidal substances, modified starches, glues
CH. 10	Cereals, grains	CH. 38*	Dyes and sorbitol
CH. 11	Products of milling industry	CH. 41*	Hides and skins
CH. 12	Oil seeds and oleaginous fruits	CH. 43*	Raw fur
CH. 13	Lac, gums, resins, saps, and extracts	CH. 50*	Raw silk and silk waste
CH. 14	Vegetable plaiting materials	CH. 51*	Wool and animal hair
CH. 15	Animal or vegetable fats and oils	CH. 41*	Hides and skins
CH. 16*	Preparation of meats (excludes fish, seafood)	CH. 52*	Cotton
CH. 17	Sugars and sugar confectionery	CH. 52*	Cotton
CH. 18	Cocoa and cocoa preparations	CH. 53*	Flax and hemp
CH. 19	Preparations of cereals		

Figure 6. 10 The US agricultural products under the Chinese tariffs.

Source: WTO, Analytical Index, Agreement on Agriculture, Article 2, Annex 1, 1995

China is the second-largest export market of US cotton. In 2019, the US export of cotton into China totalled $ 708 million (US Agricultural Export Yearbook). This figure is 23% less compared to 2018. Overall, US agricultural products exports to China fell by 63% between 2017 and 2018, from $15.8 billion to $5.9 billion. US exported $11.2 billion worth of soybeans to China from July 2017 to June 2018, before falling 72%, in between July 2018 to July 2019, after the Chinese retaliatory tariffs were placed (Grant et al,

2019).Analogously, total agricultural exports from the United States to China fell by $10.7 billion, or 58% over the same period.

Can Turkey be a substitute for the US agricultural products under the Chinese tariff?

Turkey is a significant producer and exporter of agricultural products on global markets. According to Food and Agricultural Organization of the United Nations (FAO), Turkey is estimated to be the world's 7th largest agricultural producer, primarily a top producer and exporter of crops like hazelnuts, chestnuts, apricots, cherries, olives, tobacco, etc. Turkey is also one of the largest countries in the world in terms of lands suitable for agricultural purposes (Agriculture in Turkey). About 35.5% of Turkey's lands are arable lands. The cultivated agricultural land is around 23.7 million hectares as per 2016.

According to the Turkish Exports Assembly data, the Turkish agricultural sector was$ 22.65 billion of the overall export in 2018. This number stood at $21.22 billion and $20.21 billion in 2017 and 2016, respectively (Daily Sabah, 2019). Turkish is one of the leading edible nuts and dried fruits producers in the world markets. Edible nuts and dried fruits, hazelnuts, raisins, pistachios, and dried apricots are of the important parts of Turkish agricultural exports (Ministry of Trade, 2018).

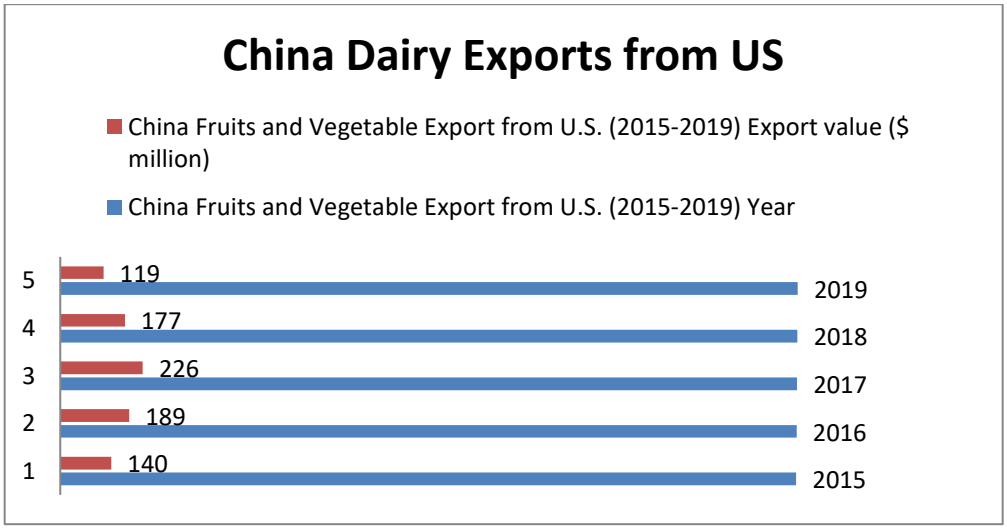


Figure 6. 11 China's imports of US dairy

Source: Based on the data of US Agricultural Export Yearbook

China is the third biggest US dairy importer after Mexico and Canada by an average $ 457.2 million in the last five years. Soon after the trade war started, Chinese imports of

US dairy started to fell. Chinese imports of US dairy decreased by 25% from $ 499 billion in 2018 to $ 374 in 2019. This number was $ 576 and $ 386 in 2017 and 2016 respectively.

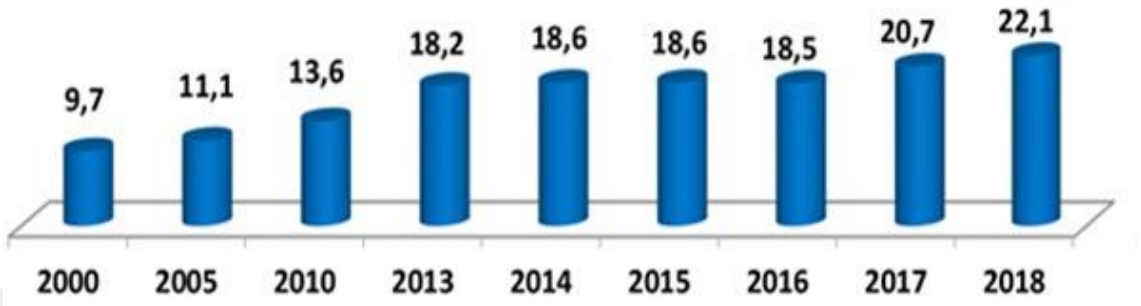


Figure 6. 12 Milk Production Growth (Million Ton) (All species)

Source: IDF WDS Istanbul 2019

The dairy and dairy products industry is a vital subsector on the Turkish food industry as it accounts for 15% of the sector (Yöruk). According to TurkStat, the amount of cow milk collected by the integrated dairies was 2.48 million tons in the first quarter of 2020 while year-on-year in January-March production increased by 6.3% (Sahin & Dikme, 2020). Official figures showed that drinking milk production also saw an annual rise in January-March -- up 11.3% to 422,076 tons.

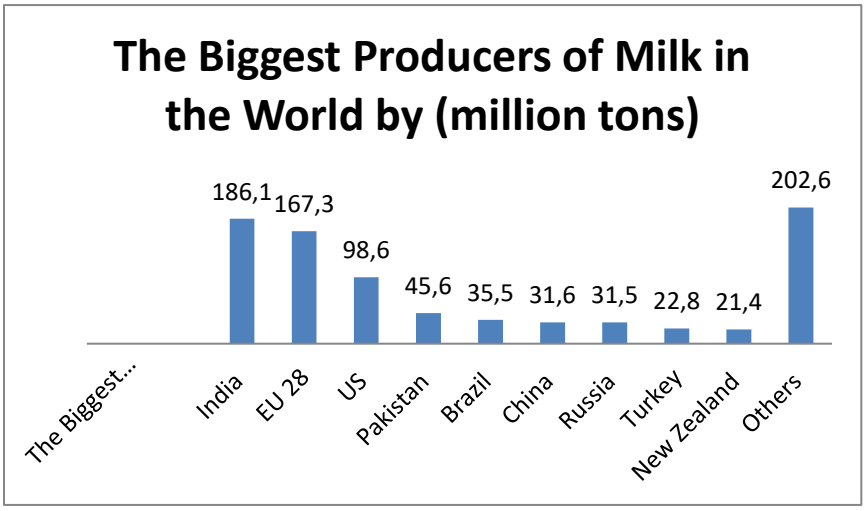


Figure 6. 13 Biggest Milk Producers in the World

Source: UN Food and Agricultural Organization

Turkey is the 3rd largest in Europe and 8th largest milk producer in the world (IDF WDS Istanbul 2019). Except for 2015, the production of milk was in an upward trend.

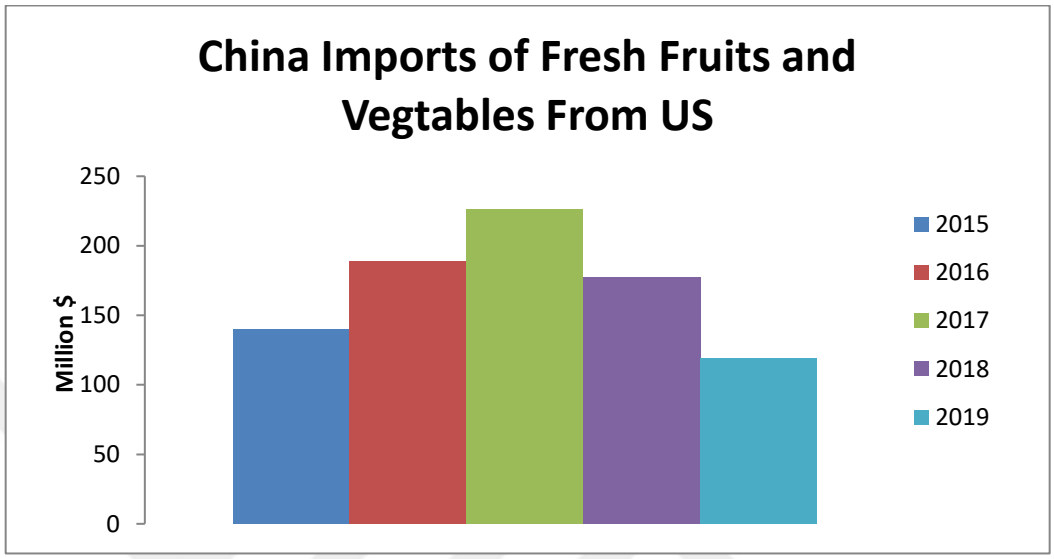


Figure 6.14 China imports of US Fresh Fruit and Vegetables

Source: Source: Based on the data of US Agricultural Export Yearbook

Trade tensions and tariffs also affected the fruits and vegetables of imports of fruit and vegetable exports to China, and Hong Kong experienced their second year of decline in a raw. Chinese imports from the US decreased by 47% from $ 226 million in 2017 to $ 119 million in 2019.China imported approximately 6.83 million tons of fruit with a total value of $9.5 billion, representing year-on-year increases of 24% and 25%, respectively in 2019.

Turkey, on the other hand, has a very developed and capable fresh fruit industry. Not only there is a great diversity in the number of fruits grown in Turkey, but also the capacity of the industry is astonishing as it the total production is about 18 million tons (Fruit Logistica, 2020). The fresh produce grown in Turkey ranges from grape-like fruits, stone fruits, pome fruits, and citrus fruits. Turkey is one of the leading producers of Cherries (20% of world prod.), Apricots (%18 of world production), Figs and Quinces (25% of world prod. for each) and Grapes (6% of world production) (Fruit Logistica, 2020). In 2016, Turkey exported 3.5 million tons of fruits and vegetables of this, 811,286 tonnes were fresh fruits, while 1.6 million tons were citrus (Fruit Logistica, 2020).

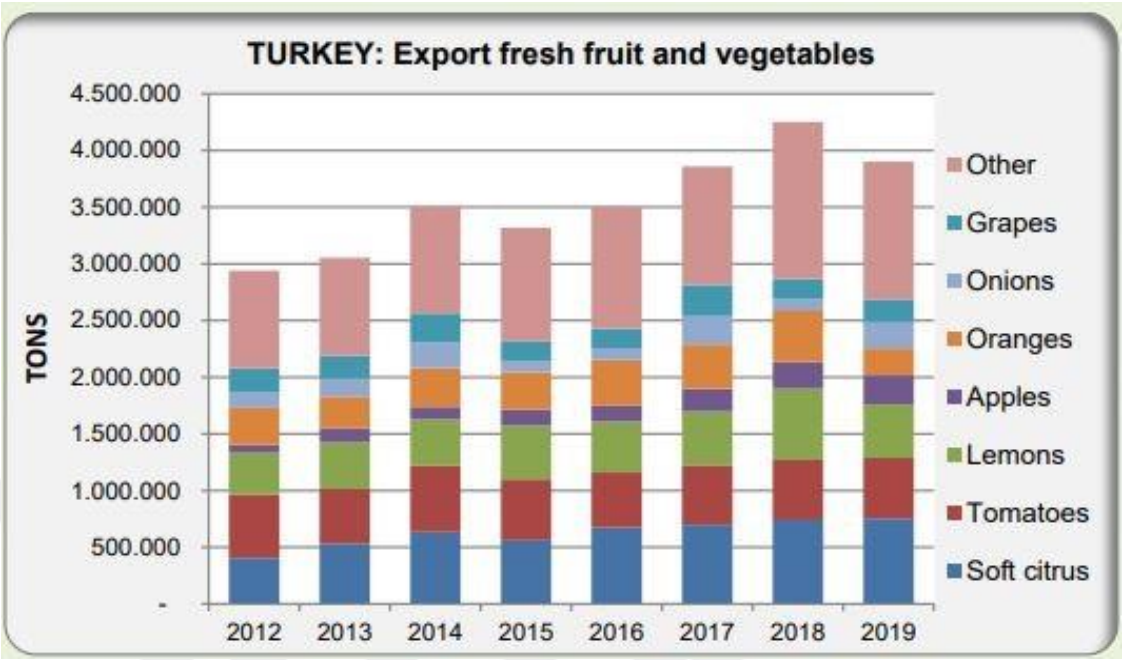


Figure 6. 15 Turkish Export of fresh fruit and vegetables

Source: Jan Kees Boon fruit and vegetable fact, 2019

Turkey is among one of the few countries in the world that is self-sufficient in terms of food. Thanks to its soil fertility, water sufficiency, suitable climate, and skilled farmers, Turkey has one of the most reliable and most successful agricultural sectors in the world. Turkey is one of the top 10 producers of fruit, cotton, and wheat in the world, according to The Economist's world rankings (Nations Encyclopedia). It's also one of the top 5 producers of vegetables, tea, and raw wool. In addition to this, a broad range of crops can be cultivated in Turkey because of the different climates it possesses (Nations Encyclopedia). Turkey enjoys a comparative advantage in many agricultural products, as well as a positive trade balance in agriculture.

Taking all of the above into consideration, the agricultural sector in Turkey can partially fill the gap and become a substitute for US agricultural products which are under the Chinese tariffs. The agricultural exports also could contribute to decreasing the Turkish trade deficit with China, which stood $ 15.98 billion in 2019 and enjoy an overall balanced trade with it.

6.4 Conclusion

Ever since President Trump came into the power in late 2016, the US, under his administration diverted from its long-held position as an internationally open economy advocator. With his slogan 'America First', Trump started a multi-front protectionism policy in which he targeted every country and international organization which he suspects of undermining the United States from becoming number one. US withdrew from the Trans-Pacific Partnership (TPP), renegotiated with Canada and Mexico over the (NAFTA) agreement and imposed tariffs on steel and aluminum. Trump accused China the stealing of US intellectual property (IP) and that it uses unfair discriminatory practices against US products; this caused a damage of $50 billion in US economy based on the three-year annual average (Office of USTR 2018) thus this further widens the trade deficit between the two countries. In mid-2018, the US raised 25% tariff on about $ 50 billion worth of Chinese goods to which China retaliated by imposing 25% tariff on $ 50 billion worth of US goods, and from there, the US -China trade war started.

The main objectives of this research were to identify main sectors affected by the tit-for-tat US-China trade war and to analyze the opportunities for the Turkish exporters as an alternative for the affected sectors.

Chinese retaliatory tariffs have hit United States agriculture products the hardest. Soybeans are currently subject to an increased tariff of 30% under the retaliation to both the US Section 232 and Section 301 actions. In comparison, other agricultural products are subject to an average tariff increase of 32%, which will grow to 35% if China implements all the proposed tariffs Congressional Research Service (2019).Another sector which was affected by the trade war is the automotive sector. According to the Census Bureau data, the US export of automotive parts to China dropped 29.81% from $ 3.6 billion to $ 2.5 billion in 2019. The imposed Chinese tariffs on US vehicles and motors made the US automotive exports less competitive, thus giving a chance the other automotive producing countries to fill the gap.

On the other hand, the textile and apparel sector was also hit by the trade war. A study conducted by the UN estimated the overall, loss in China's export of textiles and apparel to the US during the first half was estimated at $1.19 billion.

The ongoing US-China trade war has without doubt negatively affected the economy of the involving parties (US and China), by increasing the cost of the products under the tariff and making them less competitive in each other's market. However, the trade war creates an opportunity for non-involving third parties who manufacture the affected goods and products. In the research, we explored if Turkey can be considered as a potential candidate for substitution and which sectors could be beneficiaries of this trade war.

Turkey's apparel and textile exports can benefit from the US -China trade war. Turkey is among one of the world's most talented textile and apparel manufacturing countries. According to the Istanbul Apparel Exporters' Association (IHKIB) yearly report, in 2018, Turkey's overall export has increased from 157 billion dollars to 168.1 billion dollars, with an increase of 7.1%. The same year, Turkey's apparel export increased by 3.6% and recorded 17.6 billion dollars compared to the previous year (IHKIB, 2018). According to the Turkish Trade MinsterDespite the protectionist inclinations of current global trade, the Turkish textile industry has managed to preserve and improve its position in the international market thanks to its strong internal dynamics, innovative branding and design ideas.

Automotive sector, especially motor and vehicle parts industry is also another strong Turkish industry which can be a potential substitute for the Chinese counter industry, which was under the US tariffs. In the first seven months of 2019, Turkey's automotive exports to the US have increased by 14% to $631 million. Turkey is the15th biggest automotive producer in the world and the 5th biggest in Europe. With the world's biggest car manufacturing companies operating in Turkey due to its skilled labour, underlying infrastructure, and strategic geographical location, this sector can be regarded as a substitute to the Chinese one in the US market.

Turkish fresh fruits and dairy products are another two agricultural sub-sectors which can benefit from the U.S-China trade war. According to the Food and Agricultural

Organization of the United Nations (FAO), Turkey is estimated to be the world's 7th largest agricultural producer. While dairy and dairy products industry is an important subsector on the Turkish food industry as it accounts for 15% of the sector (Yöruk). According to TurkStat, the amount of cow milk collected by the integrated dairies was 2.48 million tons in the first quarter of 2020.

6.5 Implication of the study

The main aim of this study was to explore the impact of the US-China trade war on the exports of each other and the affected sectors by the imposed tariffs. Also the study was trying to explain the trade diversion created by the trade war and Turkey's ability to be an alternative substitute for the affected sectors. By conducting a deep literature review coupled with a document analysis based on books, academic articles, and the published data WTO, WB, WITS, we concluded that although there are over ten sectors which Turkey can be a good source of substitution in both US and China, the top four in terms of the production capacity and the Turkey'sability to succeed in that competitive market are textile and apparel, and automotive sectors in US while fresh fruits and diary sectors in China.

This study's major practical contribution of the present research is that it provides the Turkish exporters a much needed deep analysis on the opportunities trade war provides as result of the imposed tariffs and the particular Turkish sectors which can benefit from this. It also notifies the Turkish business community and exporters involving in the affected sectors to increase their production levels to cover and grab the lost market shares and to increase their exports to the US and China. A second important implication of this study is that it showed the unidimensionality of the Turkish exports to China as 80% of its exports consist on minerals and raw materials. This created a huge trade deficit for Turkey as the profit margins of the raw materials are less than the high end products it imports from China like machines and electronics thus, creating a lack of export diversity and over dependency minerals.

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